BEST PACIFIC

Best Pacific International Holdings Limited

超盈國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2111)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

HIGHLIGHTS

- The Group's revenue for the six months ended 30 June 2019 amounted to approximately HK$1,602.8 million, representing an increase of approximately 18.6% when compared to the six months ended 30 June 2018.

  Sales revenue of elastic fabric achieved a period-on-period growth of approximately 34.2%, in which the Group recorded a period-on-period growth of approximately 44.6% in sales revenue of sportswear and apparel fabric materials.

- The Group's gross profit for the six months ended 30 June 2019 amounted to approximately HK$392.0 million, representing an increase of approximately 21.4% when compared to the six months ended 30 June 2018. Gross profit margin increased by approximately 0.6 percentage point to approximately 24.5%, as compared to the six months ended 30 June 2018.

- Profit attributable to owners of the Company amounted to approximately HK$120.9 million, representing an increase of approximately 16.2% as compared to the six months ended 30 June 2018.

- Basic earnings per share was approximately HK11.63 cents for the six months ended 30 June 2019, representing an increase of approximately 15.8% from approximately HK10.04 cents for the six months ended 30 June 2018.

- The Board has resolved not to declare any interim dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: nil).

The board of Directors (the "**Board**") of Best Pacific International Holdings Limited (the "**Company**" or "**Best Pacific**" or "**We**") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2019 (the "**Reporting Period**"), together with the comparative figures for the six months ended 30 June 2018, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2019 (unaudited)

	Notes	**Six months ended** **30.6.2019** **HK$'000** **(unaudited)**	30.6.2018 HK$'000 (unaudited)
Revenue	*4*	**1,602,849**	1,351,342
Cost of sales		**(1,210,855)**	(1,028,327)
Gross profit		**391,994**	323,015
Other income		**12,408**	17,486
Other gains and losses		**399**	6,792
Selling and distribution expenses		**(80,428)**	(69,996)
Administrative expenses		**(103,178)**	(87,711)
Research and development costs		**(49,228)**	(44,464)
Share of result of a joint venture		**1,189**	1,124
Finance costs		**(43,212)**	(28,067)
Profit before taxation	*5*	**129,944**	118,179
Income tax expense	*6*	**(8,753)**	(15,393)
Profit for the period		**121,191**	102,786
Profit (loss) for the period attributable to			
– Owners of the Company		**120,924**	104,054
– Non-controlling interests		**267**	(1,268)
		121,191	102,786
Earnings per share	*8*		
Basic (HK cents)		**11.63**	10.04
Diluted (HK cents)		**11.63**	10.02

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Profit for the period	**121,191**	102,786
Other comprehensive (expense) income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(23,112)**	(24,134)
Share of translation reserve of a joint venture	**(89)**	(109)
Item that will not be reclassified to profit or loss:		
Fair value gain on investment in a partnership	**984**	388
Other comprehensive expense for the period	**(22,217)**	(23,855)
Total comprehensive income for the period	**98,974**	78,931
Total comprehensive income (expense) for the period attributable to		
– Owners of the Company	**98,707**	80,199
– Non-controlling interests	**267**	(1,268)
	98,974	78,931

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2019 (unaudited)

	Notes	**30.6.2019 HK$'000 (unaudited)**	31.12.2018 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*9*	**2,734,760**	2,703,094
Right-of-use assets	*9*	**251,891**	–
Prepaid lease payments		**–**	118,331
Interest in a joint venture		**29,401**	35,147
Deposits		**94,618**	80,928
Investment in a partnership		**19,544**	18,642
Deferred tax assets		**4,728**	4,371
		3,134,942	2,960,513
Current assets			
Inventories		**941,848**	865,105
Prepaid lease payments		**–**	2,987
Trade and bills receivables	*10*	**530,308**	730,661
Other receivables, deposits and prepayments		**81,484**	74,806
Tax recoverable		**20,759**	–
Pledged bank deposits		**60,196**	82,220
Short term bank deposits		**7,480**	12,249
Bank balances and cash		**564,752**	459,894
		2,206,827	2,227,922
Current liabilities			
Trade payables	*11*	**183,057**	208,961
Bills payables	*11*	**285,201**	396,142
Other payables and accrued charges		**181,473**	222,676
Lease liabilities		**10,952**	–
Contract liabilities		**44,301**	56,493
Bank borrowings	*12*	**1,084,807**	789,696
Tax payables		**13,037**	21,438
Bank overdrafts	*12*	**25,258**	12,385
		1,828,086	1,707,791
Net current assets		**378,741**	520,131
Total assets less current liabilities		**3,513,683**	3,480,644

	Notes	**30.6.2019** **HK$'000** **(unaudited)**	31.12.2018 HK$'000 (audited)
Non-current liabilities			
Bank and other borrowings	*12*	**946,496**	1,004,462
Lease liabilities		**62,617**	–
Derivative financial instrument		**2,015**	3,195
Deferred income		**4,561**	5,282
Deferred tax liabilities		**4,037**	4,825
Retirement benefit obligations		**7,139**	5,460
		1,026,865	1,023,224
Net assets		**2,486,818**	2,457,420
Capital and reserves			
Share capital	*13*	**10,398**	10,397
Reserves		**2,391,390**	2,362,260
Equity attributable to owners of the Company		**2,401,788**	2,372,657
Non-controlling interests		**85,030**	84,763
Total equity		**2,486,818**	2,457,420

NOTES

For the six months ended 30 June 2019

1. GENERAL INFORMATION

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 14 June 2013. Its immediate and ultimate holding company is Grandview Capital Investment Limited, which is incorporated in the British Virgin Islands and is wholly owned by Mr. Lu Yuguang, who is an executive director and the Chairman of the Company. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 23 May 2014.

The functional currency of the Company is Hong Kong dollar ("**HK$**"), which is the same as the presentation currency of the condensed consolidated financial statements.

2. BASIS OF PREPARATION

The condensed consolidated financial statements of the Group for the six months ended 30 June 2019 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than those changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") as disclosed below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the six months ended 30 June 2019, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

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

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

Impacts and changes in accounting policies of application on HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the six months ended 30 June 2019. HKFRS 16 superseded HKAS 17 "Leases", and the related interpretations.

3.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of 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.

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

As a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases of buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straightline basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

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

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

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

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option which is reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

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

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

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

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

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

Taxation

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

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

3.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

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

i. relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of buildings in the People's Republic of China (the "**PRC**") was determined on a portfolio basis; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 5.33% per annum.

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

	At 1 January 2019 *HK$'000*
Operating lease commitments disclosed as at 31 December 2018	**137,764**
Lease liabilities discounted at relevant incremental borrowing rates	**78,393**
Less: Recognition exemption – short-term leases	**(1,736)**
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	**76,657**
Analysed as	
Current	**10,878**
Non-current	**65,779**
	76,657

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

	Note	**Right-of-use assets** *HK$'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		**76,657**
Reclassified from prepaid lease payments	*(a)*	**121,318**
		197,975
By class:		
Leasehold lands		**175,809**
Buildings		**22,166**
		197,975

(a) Upfront payments for leasehold lands in the PRC, the Socialist Republic of Vietnam ("**Vietnam**") and the Democratic Socialist Republic of Sri Lanka ("**Sri Lanka**") were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$2,987,000 and HK$118,331,000 respectively were reclassified to right-of-use assets.

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

	Note	Carrying amounts previously reported at 31 December 2018	Adjustments	**Carrying amounts under HKFRS 16 at 1 January 2019**
		HK$'000	*HK$'000*	***HK$'000***
Non-current assets				
Prepaid lease payments	*(a)*	118,331	(118,331)	**–**
Right-of-use assets		–	197,975	**197,975**
Current assets				
Prepaid lease payments	*(a)*	2,987	(2,987)	**–**
Current liabilities				
Lease liabilities		–	10,878	**10,878**
Non-current liabilities				
Lease liabilities		–	65,779	**65,779**

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening condensed consolidated statement of financial position as at 1 January 2019 as disclosed above.

4. REVENUE AND SEGMENT INFORMATION

Revenue

The Group's revenue is derived from manufacturing and trading of elastic fabric, lace and elastic webbing in Hong Kong, the PRC, Vietnam and Sri Lanka, net of discounts and sales related taxes. The Group's revenue is recognised at a point in time.

Disaggregation of revenue from contracts with customers

For the six months ended 30 June 2019 (unaudited)

	Manufacturing and trading of elastic fabric and lace *HK$'000*	**Manufacturing and trading of elastic webbing** *HK$'000*	**Total** *HK$'000*
Types of goods			
Sales of products			
Elastic Fabric			
– Lingerie	**580,575**	**–**	**580,575**
– Sportswear and apparel	**562,243**	**–**	**562,243**
	1,142,818	**–**	**1,142,818**
Lace	**43,326**	**–**	**43,326**
Elastic webbing	**–**	**416,705**	**416,705**
	1,186,144	**416,705**	**1,602,849**

For the six months ended 30 June 2018 (unaudited)

	Manufacturing and trading of elastic fabric and lace *HK$'000*	Manufacturing and trading of elastic webbing *HK$'000*	Total *HK$'000*
Types of goods			
Sales of products			
Elastic Fabric			
– Lingerie	462,801	–	462,801
– Sportswear and apparel	388,945	–	388,945
	851,746	–	851,746
Lace	53,440	–	53,440
Elastic webbing	–	446,156	446,156
	905,186	446,156	1,351,342

Segment information

The financial information reported to the executive directors of the Company, being the chief operating decision makers ("**CODM**"), for the purpose of assessment of segment performance and resources allocation focuses on types of goods delivered.

The Group's operating and reportable segments under HKFRS 8 are as follows:

- Manufacturing and trading of elastic fabric and lace

  This segment derives its revenue from manufacturing and trading of elastic fabric and lace made from synthetic fibres that are commonly used in knitted lingerie, sportswear and apparel products.

- Manufacturing and trading of elastic webbing

  This segment derives its revenue from manufacturing and trading of elastic webbing made from synthetic fibres that are commonly used as shoulder straps, lingerie trims and waistbands.

Segment revenue and results

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

For the six months ended 30 June 2019 (unaudited)

	Manufacturing and trading of elastic fabric and lace *HK$'000*	**Manufacturing and trading of elastic webbing** *HK$'000*	**Total** *HK$'000*
Segment revenue from external customers	**1,186,144**	**416,705**	**1,602,849**
Segment profits	**85,643**	**93,808**	**179,451**
Unallocated other income			**6,145**
Unallocated other gains and losses			**6,364**
Unallocated corporate expenses			**(19,993)**
Share of result of a joint venture			**1,189**
Finance costs			**(43,212)**
Profit before taxation			**129,944**

For the six months ended 30 June 2018 (unaudited)

	Manufacturing and trading of elastic fabric and lace *HK$'000*	Manufacturing and trading of elastic webbing *HK$'000*	Total *HK$'000*
Segment revenue from external customers	905,186	446,156	1,351,342
Segment profits	66,282	90,177	156,459
Unallocated other income			6,616
Unallocated other gains and losses			1,063
Unallocated corporate expenses			(19,016)
Share of result of a joint venture			1,124
Finance costs			(28,067)
Profit before taxation			118,179

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment profits represent the results of each segment without allocation of corporate items including mainly bank interest income, gain from change in fair value of a derivative financial instrument, net foreign exchange gain (loss), gain on disposal of property, plant and equipment for corporate use, corporate expenses, share of result of a joint venture and finance costs. Corporate expenses include directors' remuneration paid or payable by the Group and certain administrative expenses for corporate functions. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segments:

As at 30 June 2019 (unaudited)

	Manufacturing and trading of elastic fabric and lace HK$'000	Manufacturing and trading of elastic webbing HK$'000	Total HK$'000
ASSETS			
Segment assets	**3,570,570**	**698,290**	**4,268,860**
Property, plant and equipment			**259,982**
Right-of-use assets			**23,405**
Interest in a joint venture			**29,401**
Investment in a partnership			**19,544**
Deferred tax assets			**4,728**
Other receivables, deposits and prepayments			**82,662**
Tax recoverable			**20,759**
Pledged bank deposits			**60,196**
Short term bank deposits			**7,480**
Bank balances and cash			**564,752**
Total assets			**5,341,769**
LIABILITIES			
Segment liabilities	**582,396**	**162,050**	**744,446**
Bank and other borrowings			**2,031,303**
Other payables and accrued charges			**26,536**
Bank overdrafts			**25,258**
Tax payables			**13,037**
Lease liabilities			**3,697**
Derivative financial instrument			**2,015**
Deferred tax liabilities			**4,037**
Retirement benefit obligations			**4,622**
Total liabilities			**2,854,951**

As at 31 December 2018 (audited)

	Manufacturing and trading of elastic fabric and lace HK$'000	Manufacturing and trading of elastic webbing HK$'000	Total HK$'000
ASSETS			
Segment assets	3,569,484	706,495	4,275,979
Property, plant and equipment			201,838
Prepaid lease payments			19,252
Interest in a joint venture			35,147
Investment in a partnership			18,642
Deferred tax assets			4,371
Other receivables, deposits and prepayments			78,843
Pledged bank deposits			82,220
Short term bank deposits			12,249
Bank balances and cash			459,894
Total assets			5,188,435
LIABILITIES			
Segment liabilities	671,626	207,220	878,846
Bank and other borrowings			1,794,158
Other payables and accrued charges			16,168
Bank overdrafts			12,385
Tax payables			21,438
Derivative financial instrument			3,195
Deferred tax liabilities			4,825
Total liabilities			2,731,015

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating and reportable segments, other than certain property, plant and equipment, right-of-use assets and prepaid lease payments for corporate use or the property and plant under construction and right-of-use assets in relation to the land on which such construction is undergoing in Sri Lanka, interest in a joint venture, investment in a partnership, deferred tax assets, tax recoverable, pledged bank deposits, short term bank deposits and bank balances and cash and certain corporate assets.

- all liabilities are allocated to operating and reportable segments, other than bank and other borrowings, bank overdrafts, tax payables, deferred tax liabilities, derivative financial instrument and certain corporate liabilities.

5. PROFIT BEFORE TAXATION

	Six months ended 30.6.2019 HK$'000 (unaudited)	30.6.2018 HK$'000 (unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**118,620**	110,177
Depreciation of right-of-use assets	**8,387**	–
Amortisation of prepaid lease payments	**–**	1,856
Cost of inventories recognised as an expense	**1,210,855**	1,028,327
Including: allowance for obsolete inventories recognised (reversed)	**10,121**	(52)
Net proceeds from sales of scrap materials (included in other income)	**(4,113)**	(3,389)
Bank interest income (included in other income)	**(2,881)**	(3,339)
Government grants (included in other income)	**(1,276)**	(6,542)
Gain from change in fair value of a derivative financial instrument (included in other gains and losses)	**(1,180)**	(1,653)
Loss (gain) from net remeasurement of credit loss allowance for trade receivables (included in other gains and losses) *(Note 10)*	**3,745**	(4,108)
Net foreign exchange (gain) loss (included in other gains and losses)	**(5,191)**	590

6. INCOME TAX EXPENSE

	Six months ended 30.6.2019 HK$'000 (unaudited)	30.6.2018 HK$'000 (unaudited)
Current tax:		
Hong Kong Profits Tax	**2,947**	14,110
The PRC Enterprise Income Tax ("**EIT**")	**16,908**	7,024
Over provision in prior years:		
The PRC EIT	**(9,505)**	(6,477)
	10,350	14,657
Deferred taxation	**(1,597)**	736
	8,753	15,393

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime will be applicable to any year of assessment commencing on or after 1 April 2018.

Accordingly, starting from the financial year ended 31 December 2018, the Hong Kong Profits Tax for the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25% during the six months ended 30 June 2018 and 2019, unless there is any preferential tax treatment applicable.

The Company's subsidiaries, Dongguan Best Pacific Textile Company Limited ("**Dongguan BPT**") and Dongguan New Horizon Elastic Fabric Company Limited ("**Dongguan NHE**"), obtained the qualification as high and new technology enterprises since 2010 and 2016, respectively, which are now renewing for an additional three years from financial year 2019, and they also completed the relevant filing requirements with the competent tax authorities. Hence, Dongguan BPT and Dongguan NHE are subject to the preferential tax treatment and the applicable tax rate for the six months ended 30 June 2018 and 2019 has been 15%.

Pursuant to the relevant Vietnam Enterprises Income Tax rules and regulations, the applicable tax rate for the subsidiary operating in Vietnam is 20%. The subsidiary in Vietnam is eligible for tax holiday for two financial years since the first financial year of taxable profit and tax concession at a tax rate of 10% for the following four financial years. With the additional incentive in place during the year ended 31 December 2018 and by fulfilling certain stated requirements, the subsidiary in Vietnam is eligible for tax holiday for four financial years since 2018, tax concession at a tax rate of 5% for the following nine financial years and tax concession at a tax rate of 10% for the next following two financial years.

Pursuant to the Inland Revenue Act, No. 24 of 2017 in Sri Lanka, the applicable tax rate for the subsidiaries operating in Sri Lanka is 28%. By fulfilling certain export requirements set by the Board of Investment of Sri Lanka, the subsidiaries of the Group in Sri Lanka have enjoyed a preferential tax rate of 14% for the six months ended 30 June 2019. In addition, one of these subsidiaries is currently eligible for tax holiday till the year ending 31 December 2024.

Taxation arising in any other jurisdiction is calculated at the rate prevailing in the relevant jurisdiction.

7. DIVIDENDS

During the current interim period, a final dividend of HK6.7 cents per ordinary share in respect of the year ended 31 December 2018 (2018: HK5.9 cents per ordinary share in respect of the year ended 31 December 2017) was declared and paid to the shareholders of the Company. The aggregate amount of final dividend amounted to HK$69,667,000 (2018: HK$61,161,000).

Subsequent to the end of the current interim period, the directors of the Company have resolved not to declare any interim dividend for the six months ended 30 June 2019.

8. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2019	30.6.2018
	(unaudited)	(unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to owners of the Company) (HK$'000)	**120,924**	104,054
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,039,761,039**	1,036,617,392
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**48,827**	2,277,295
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,039,809,866**	1,038,894,687

9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the six months ended 30 June 2019, total addition to property, plant and equipment were approximately HK$188,289,000 (for the six months ended 30 June 2018: approximately HK$267,750,000), which mainly included addition of machinery of approximately HK$50,028,000 (for the six months ended 30 June 2018: approximately HK$45,301,000) and addition to construction in progress of approximately HK$129,161,000 (for the six months ended 30 June 2018: approximately HK$207,239,000).

During the six months ended 30 June 2019, total addition to right-of-use assets were approximately HK$63,200,000, which mainly included addition of HK$60,818,000 in relation to a new lease agreement entered by the Group for the use of a piece of land in the PRC for 42 years. On lease commencement, the Group is required to make full payments and the Group recognised approximately HK$60,818,000 of right-of-use asset for such lease.

10. TRADE AND BILLS RECEIVABLES

	30.06.2019 **HK$'000** **(unaudited)**	31.12.2018 HK$'000 (audited)
Trade receivables	**556,184**	753,559
Less: Allowance for credit losses	**(28,393)**	(24,648)
Total trade receivables	**527,791**	728,911
Bill receivables	**2,517**	1,750
Total trade and bill receivables	**530,308**	730,661

Trade receivables from third parties mainly represent receivables from customers in relation to the sale of elastic fabric, lace and elastic webbing to customers. The credit period granted to the customers ranges from 30 to 90 days from the date of issuance of a monthly statement for sales delivered in that month.

The following is an aged analysis of trade receivables, net of allowance for impairment, presented based on the date of issuance of monthly statements at the end of each reporting period and an aged analysis of bills receivables presented based on the date of issuance of the bills at the end of each reporting period:

	30.6.2019 **HK$'000** **(unaudited)**	31.12.2018 HK$'000 (audited)
Trade receivables		
0 – 90 days	**475,751**	681,459
91 – 180 days	**28,007**	29,581
Over 180 days	**24,033**	17,871
	527,791	728,911
Bills receivables		
0 – 90 days	**2,517**	1,750
	530,308	730,661

The following is the movement in the allowance for impairment in respect of trade receivables during the six months ended 30 June 2019:

	HK$'000
Balance at 1 January 2019 (audited)	**24,648**
Net remeasurement of credit loss allowance	**3,745**
Balance at 30 June 2019 (unaudited)	**28,393**

Trade receivables balances with related companies included in the Group's trade receivables balance are listed below:

	30.6.2019 HK$'000 (unaudited)	31.12.2018 HK$'000 (audited)
Related companies		
A related company*	**5,049**	5,191
Other related companies#	**51,928**	82,479
	56,977	87,670

* The related company is controlled by a director of the Company and close family members of directors of the Company.

\# The related companies are fellow subsidiaries of each of the two non-controlling shareholders who have significant influence over certain subsidiaries of the Group.

The above trade receivables balances with related companies are unsecured, interest-free and with a credit term of 30 to 90 days from the date of issuance of a monthly statement for sales delivered in that month. The following is an aged analysis of trade receivables balances with related companies presented based on the date of issuance of monthly statements at the end of each reporting period.

	30.6.2019 HK$'000 (unaudited)	31.12.2018 HK$'000 (audited)
0 – 90 days	**56,977**	87,670

11. TRADE AND BILLS PAYABLES

Trade payables

The credit period granted by the Group's creditors ranges from approximately 30 to 90 days. The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting period:

	30.6.2019 HK$'000 (unaudited)	31.12.2018 HK$'000 (audited)
0 – 90 days	**173,273**	192,771
Over 90 days	**9,784**	16,190
	183,057	208,961

As at 30 June 2019, included in the Group's trade payables balance is an amount due to a joint venture of HK$8,202,000 (as at 31 December 2018: HK$16,243,000). Such balance due to a joint venture is unsecured, interest-free and with a credit term of 30 days from the date of issuance of a monthly statement for purchases delivered in that month. This balance is aged within 90 days at the end of the reporting period.

Bills payables

The following is an aged analysis of bills payables presented based on the date of issuance of bills at the end of each reporting period:

	30.6.2019 **HK$'000** **(unaudited)**	31.12.2018 HK$'000 (audited)
0 – 90 days	**187,092**	261,009
91 – 180 days	**98,109**	135,133
	285,201	396,142

12. BANK AND OTHER BORROWINGS/BANK OVERDRAFTS

	30.6.2019 **HK$'000** **(unaudited)**	31.12.2018 HK$'000 (audited)
Bank overdrafts	**25,258**	12,385
Unsecured syndicated loan	**1,121,822**	1,194,265
Unsecured bank borrowings	**889,981**	594,043
Unsecured other borrowing *(Note)*	**19,500**	5,850
	2,056,561	1,806,543
Carrying amount repayable*		
Within one year	**1,039,865**	727,981
More than one year, but not exceeding two years	**993,296**	660,931
More than two years, but not more than five years	**23,400**	417,631
	2,056,561	1,806,543
Less: Amounts due within one year or contain a repayment on demand clause shown under current liabilities	**(1,110,065)**	(802,081)
Amounts shown under non-current liabilities	**946,496**	1,004,462
Carrying amount of bank borrowings that are repayable within one year and contain a repayment on demand clause	**530,152**	532,328
Carrying amount of bank borrowings that are repayable more than one year but contain a repayment on demand clause	**70,200**	74,100
	600,352	606,428

* The amounts due are based on scheduled repayment dates set out in the loan agreements and included the unamortised portion of the prepaid transaction cost in relation to the unsecured syndicated loan.

Note: Other borrowing represents loan from a non-controlling shareholder of a subsidiary which is unsecured, carries interest at London Interbank Offered Rate ("**LIBOR**") plus 2.4% per annum and repayable during December 2021 to February 2022 (as at 31 December 2018: repayable in December 2021). Such other borrowing is denominated in United States Dollar("**US$**").

During the year ended 31 December 2017, the Group entered into a new facility agreement for an unsecured syndicated loan, which is to be repayable by installments, from 13 May 2019 to 13 May 2021 and with an interest rate at Hong Kong Interbank Offered Rate plus 2.2% per annum for HK$ loan tranche and LIBOR plus 2.2% per annum for US$ loan tranche. The unsecured syndicated loan is guaranteed by the Company.

The unsecured bank borrowings and bank overdrafts were guaranteed by the Company and/or certain of its subsidiaries as at 30 June 2019 and 31 December 2018.

13. SHARE CAPITAL

All shares issued rank pari passu with each other in all aspects. The detailed movements of the Company's share capital are set out below:

	Number of shares	**Amount**	
		HK$	HK$'000
Ordinary shares of HK$0.01 each			
Authorised:			
At 1 January 2018, 30 June 2018, 1 January 2019 and 30 June 2019	50,000,000,000	500,000,000	500,000
Issued and fully paid:			
At 1 January 2018	1,036,508,000	10,365,080	10,365
Issue of shares upon exercise of share options (Note a)	120,000	1,200	1
At 30 June 2018 (unaudited)	1,036,628,000	10,366,280	10,366
At 1 January 2019	**1,039,723,000**	**10,397,230**	**10,397**
Issue of shares upon exercise of share options (Note b)	**85,000**	**850**	**1**
At 30 June 2019 (unaudited)	**1,039,808,000**	**10,398,080**	**10,398**

Notes:

(a) In January 2018, the Company issued 120,000 shares upon the exercise of share options by an employee.

(b) In April 2019, the Company issued 85,000 shares upon the exercise of share options by certain employees.

14. EVENTS AFTER THE END OF THE REPORTING PERIOD

In July 2019, pursuant to a resolution at a partners' meeting of the partnership (in which the Group is a limited partner and had equity interest in the partnership as at 30 June 2019), the partners in the partnership agreed to further reduce the total capital contribution to the partnership and distribute such paid up contributed capital together with a portion of the distributable profit to partners according to their respective interest in the partnership. Accordingly, the Group has received its paid up contributed capital in the partnership of RMB15,174,000 (equivalent to HK$17,244,000) and distributable profits of approximately RMB2,024,000 (equivalent to HK$2,300,000) from the partnership, respectively in the same month.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

According to the International Monetary Fund (the "**IMF**"), the full year emerging market economic growth in 2019 was revised downward to come in at approximately 4.1%, a decade low and the second-weakest figure since the dotcom bust in 2002. Amidst the signs of a global economic slowdown, the world's major governments have adopted an increasingly dovish stance in view of the continuing uncertainties over international trade and other geopolitical factors. Most of the world's major central banks are likely to continue their programmes of economic stimulus policies.

In the PRC, while the growth in retail sales had been relatively stable at approximately 8.2% during the six months ended 30 June 2019, it remained challenging for the manufacturing and export companies in the PRC. Most exporters in the PRC had reported the weakest operating conditions in three years, as hopes for a near-term settlement of the trade war between the United States of America (the "**U.S.**") and the PRC continued to ebb. The continual economic deterioration had also resulted in a further slowdown in investment growth.

With the softening of the trade and manufacturing activities, the average gross domestic product ("**GDP**") growth in the PRC was approximately 6.3% in the first half of 2019, as compared to approximately 6.8% for the corresponding period in 2018. Looking at the GDP growth in the second quarter of 2019 slumping to a near three-decade low, the current economy in the PRC was undoubtedly under pressure. Exports from the PRC, as the world's second largest economy, had been hit by the ongoing trade war with the U.S.. According to the General Administration of Customs of the PRC, the export to the U.S. for the first six months of 2019 had plummeted approximately 8.1% as compared to the corresponding period in 2018, reflecting the impacts of the external trading environment.

On the other hand, a no-deal Brexit in the United Kingdom would be expected to rank, alongside the U.S.-China trade tension, as one of the major threats to the world's economy. According to the forecast by the IMF, global economic growth is expected to slow down to approximately 3.2% in 2019, which would represent the weakest pace of expansion for a decade.

In this fluid operating environment, our strategy for sustainable growth remains unchanged: Best Pacific will continue its investments in product innovation, people and manufacturing infrastructure to further leverage and amplify its competitive strengths that make us a market leader. These strengths include our technological advancement in synthetic textile products as well as our diverse manufacturing bases which allow us to take advantage of tariff concessions in Vietnam and Sri Lanka as set out in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and in the Generalised Scheme of Preferences Plus, respectively.

Best Pacific continued its growth momentum with the top line hitting its half year record high of approximately HK$1,602.8 million, representing a revenue increase of approximately 18.6% for the six months ended 30 June 2019, as compared to the six months ended 30 June 2018. With the enormous potentials in the sportswear and apparel markets, the Group had been successful in both seizing new business opportunities from existing customers as well as locating new clients. For the six months ended 30 June 2019, the Group achieved an inspiring growth of approximately 35.7% in its overall sales of elastic fabric, as compared to the six months ended 30 June 2018.

Global footprint

The Group had started its internationalisation plan since 2017 and had successfully set its global footprint by diversifying its production base into Vietnam and Sri Lanka. While taking a risk balanced approach, Best Pacific continued its overseas investments by further expanding and ramping up the manufacturing capacities in these different geographical locations. This continual expansion would inevitably put pressure on the Group's profitability in the short run, but we believe the plan would also allow us to achieve market share gain from the global apparel market, especially during this time of vigorous market competition and consolidation, and would foster the Group's growth and development in the long run.

FINANCIAL PERFORMANCE

During the Reporting Period, the Group achieved an overall revenue growth of approximately 18.6% to approximately HK$1,602.8 million, as compared to approximately HK$1,351.3 million in the corresponding period of 2018. Following the acquisition of Trischel Fabric (Private) Limited ("**Trischel**") and further penetration into our new customers, the revenue from sales of elastic fabric increased by approximately 34.2% to approximately HK$1,142.8 million during the Reporting Period. However, on the other hand, the Group also received less orders for elastic webbing and lace and the revenue from sales of elastic webbing and sales of lace decreased by approximately 6.6% and 18.9%, to approximately HK$416.7 million and HK$43.3 million, respectively, during the Reporting Period.

The Group's gross profit for the Reporting Period amounted to approximately HK$392.0 million, representing an increase of approximately 21.4% as compared to the six months ended 30 June 2018. Gross profit margin increased by approximately 0.6 percentage point to approximately 24.5%, as compared to the six months ended 30 June 2018. On the other hand, the Group recorded a relatively stable net profit margin of approximately 7.6% for the Reporting Period, as compared to the six months ended 30 June 2018.

The profit attributable to owners of the Company amounted to approximately HK$120.9 million for the Reporting Period, representing an increase of approximately 16.2% as compared to the six months ended 30 June 2018.

During the Reporting Period, although the overall operational costs continued to rise in both the PRC and Vietnam, the economies of scale and together with the depreciated Renminbi ("**RMB**") against HK$ throughout most time of the first half of 2019 had eased the Group some pressure from such inflation. However, the Group's profitability was dragged by the Sri Lanka operations, in which Trischel was newly acquired in August 2018 and the production plant of Best Pacific Textiles Lanka (Pvt) Ltd was still under construction.

Basic earnings per share was approximately HK11.63 cents for the Reporting Period, representing an increase of approximately 15.8% from approximately HK10.04 cents for the six months ended 30 June 2018.

FINANCIAL REVIEW

Revenue

The Group's revenue is primarily derived from the sales of its major products, including elastic fabric, lace and elastic webbing.

For the six months ended 30 June 2019, revenue amounted to approximately HK$1,602.8 million, representing an increase of approximately HK$251.5 million, or approximately 18.6%, from approximately HK$1,351.3 million for the six months ended 30 June 2018. The increase in overall revenue during the Reporting Period was mainly attributable to the increase in the volume of elastic fabric products sold, as a result of the Group's continual expansion into the lingerie, sportswear and apparel fabric segments.

A comparison of the Group's revenue for the six months ended 30 June 2019 and the six months ended 30 June 2018 by product categories is as follows:

	Six months ended 30 June					
	2019		2018		Change	
	Revenue (HK$'000)	**% of Revenue**	Revenue (HK$'000)	% of Revenue	(HK$'000)	%
Elastic fabric	**1,142,818**	**71.3**	851,746	63.0	291,072	34.2
Elastic webbing	**416,705**	**26.0**	446,156	33.0	(29,451)	(6.6)
Lace	**43,326**	**2.7**	53,440	4.0	(10,114)	(18.9)
Total	**1,602,849**	**100.0**	1,351,342	100.0	251,507	18.6

For the six months ended 30 June 2019, revenue from the sales of elastic fabric amounted to approximately HK$1,142.8 million, representing an increase of approximately HK$291.1 million, or approximately 34.2%, as compared to the six months ended 30 June 2018. In particular, Trischel, a subsidiary acquired by the Group in Sri Lanka in August 2018, contributed sales of elastic fabric amounting to approximately HK$144.7 million during the Reporting Period. Leveraging on the Group's high product quality, strong innovation and research and development capabilities, the Group had recorded a period-on-period growth of approximately 44.6% in sales revenue of sportswear and apparel fabric materials. On the other hand, the Group had been successful in securing more orders from new large-scale customers.

Revenue from the sales of elastic webbing amounted to approximately HK$416.7 million, representing a decrease of approximately HK$29.5 million, or approximately 6.6%, as compared to the six months ended 30 June 2018. Due to the overall lukewarm lingerie market, the volume sold and the average selling price during the Reporting Period slightly decreased as compared to the corresponding period in 2018.

Revenue from sales of lace decreased from approximately HK$53.4 million for the six months ended 30 June 2018 to approximately HK$43.3 million for the six months ended 30 June 2019. The period-on-period decrease of approximately 18.9% was mainly due to the decrease in sales volume of lace in the first half of 2019, as compared to the corresponding period in 2018.

Cost of sales

The Group's cost of sales mainly comprises cost of raw materials, manufacturing overheads, and direct labour costs.

Cost of sales – by nature of expenses

	Six months ended 30 June					
	2019		2018		Change	
	(HK$'000)	**%**	(HK$'000)	%	(HK$'000)	%
Raw materials	**635,472**	**52.5**	522,330	50.8	113,142	21.7
Manufacturing overheads	**446,804**	**36.9**	386,903	37.6	59,901	15.5
Direct labour	**119,158**	**9.8**	113,067	11.0	6,091	5.4
Others	**9,421**	**0.8**	6,027	0.6	3,394	56.3
Total	**1,210,855**	**100.0**	1,028,327	100.0	182,528	17.7

The Group's cost of sales for the six months ended 30 June 2019 amounted to approximately HK$1,210.9 million, representing an increase of approximately HK$182.5 million or 17.7%, as compared to the six months ended 30 June 2018. The increase in the cost of sales was primarily due to (i) the increase in overall sales volume; and (ii) the increase in overall manufacturing overheads driven by the Group's continual business and capacity expansion during the Reporting Period.

Cost of sales – by product category

	Six months ended 30 June					
	2019		2018		Change	
	(HK$'000)	**%**	(HK$'000)	%	(HK$'000)	%
Elastic fabric	**897,478**	**74.1**	690,938	67.2	206,540	29.9
Elastic webbing	**291,021**	**24.0**	309,666	30.1	(18,645)	(6.0)
Lace	**22,356**	**1.9**	27,723	2.7	(5,367)	(19.4)
Total	**1,210,855**	**100.0**	1,028,327	100.0	182,528	17.7

As a result of the increased revenue contribution from the elastic fabric business segment, the percentage of cost of sales of elastic fabric business segment over the total cost of sales of the Group continued to rise during the Reporting Period.

Gross profit, gross profit margin and net profit margin

	Six months ended 30 June			
	2019		2018	
	Gross profit (HK$'000)	**Gross profit margin %**	Gross profit (HK$'000)	Gross profit margin %
Elastic fabric	**245,340**	**21.5**	160,808	18.9
Elastic webbing	**125,684**	**30.2**	136,490	30.6
Lace	**20,970**	**48.4**	25,717	48.1
	391,994	**24.5**	323,015	23.9

The overall gross profit increased from approximately HK$323.0 million for the six months ended 30 June 2018 to approximately HK$392.0 million for the six months ended 30 June 2019. The Group's overall gross profit margin for the six months ended 30 June 2019 increased by 0.6 percentage point to approximately 24.5%, as compared to approximately 23.9% for the six months ended 30 June 2018. The improved gross profit margin was mainly due to (i) the economies of scale of overall increased production activities; (ii) the decrease in overall costs due to RMB depreciation against HK$ for most of the time during the Reporting Period; and (iii) the overall decrease in unit price of our main raw material prices used.

Net profit for the six months ended 30 June 2019 of the Group amounted to approximately HK$121.2 million, representing an increase of approximately 17.9% as compared to approximately HK$102.8 million for the six months ended 30 June 2018. The Group recorded a relatively stable net profit margin of approximately 7.6% for the six months ended 30 June 2018 and 2019. The associated finance costs for the Group's overall expansion, the ramping up of the facilities at the newly acquired subsidiary and the construction of the production plant of another new subsidiary in Sri Lanka have dragged the overall profitability of the Group to a certain extent.

Other income

The Group's other income mainly consists of net proceeds from sales of scrap materials, bank interest income, government grants and others. The following table sets forth the breakdown of the Group's other income for the periods indicated:

	Six months ended 30 June	
	2019	2018
	(HK$'000)	(HK$'000)
Net proceeds from sales of scrap materials	**4,113**	3,389
Bank interest income	**2,881**	3,339
Government grants	**1,276**	6,542
Others	**4,138**	4,216
Total	**12,408**	17,486

The decrease in other income by approximately 29.0%, from approximately HK$17.5 million for the six months ended 30 June 2018 to approximately HK$12.4 million for the six months ended 30 June 2019, was mainly driven by the decrease in government grants received during the Reporting Period.

Other gains and losses

Other gains and losses mainly consisted of net foreign exchange gain (loss), loss (gain) from net remeasurement of credit loss allowance for trade receivables and gain from change in fair value of a derivative financial instrument.

For the six months ended 30 June 2019, the net foreign exchange gain was approximately HK$5.2 million (for the six months ended 30 June 2018: net foreign exchange loss of approximately HK$0.6 million), the loss from net remeasurement of credit loss allowance for trade receivables was approximately HK$3.7 million (for the six months ended 30 June 2018: gain from net remeasurement of credit loss allowance for trade receivables of approximately HK$4.1 million) and the gain from change in fair value of a derivative financial instrument was approximately HK$1.2 million (for the six months ended 30 June 2018: approximately HK$1.7 million).

Selling and distribution expenses

Selling and distribution expenses primarily consist of employee benefit expenses, transportation, marketing and promotional expenses and other selling and distribution expenses. For the six months ended 30 June 2018 and 2019, the Group's selling and distribution expenses represented approximately 5.2% and 5.0% of its total revenue, respectively. The increase in selling and distribution expenses was mainly due to the increase in overall sales volume during the Reporting Period.

Administrative expenses

Administrative expenses primarily consist of employee benefit expenses, depreciation and amortisation, motor vehicle expenses, bank charges and other administrative expenses. For the six months ended 30 June 2018 and 2019, the Group's administrative expenses represented approximately 6.5% and 6.4% of its total revenue, respectively.

Research and development costs

The Group is dedicated to catering to the changing market preferences by introducing innovative lingerie, sportswear and apparel materials. For the six months ended 30 June 2018 and 2019, our research and development costs represented approximately 3.3% and 3.1% of the revenue of the Group, respectively.

Finance costs

The Group's finance costs mainly represent interest expenses for bank borrowings and lease liabilities. The finance costs increased by approximately 54.0% from approximately HK$28.1 million for the six months ended 30 June 2018 to approximately HK$43.2 million for the six months ended 30 June 2019. The increase in finance costs during the Reporting Period was primarily due to (i) the increase in overall market interest rate; (ii) the increase in bank borrowings as a result of the continuous expansion in the Group's production scale; and (iii) the relevant finance costs on lease liabilities recorded upon the adoption of HKFRS 16.

Income tax expense

On 21 March 2018, the Hong Kong Legislative Council passed the Bill which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime will be applicable to any year of assessment commencing on or after 1 April 2018.

Accordingly, starting from the financial year ended 31 December 2018, the Hong Kong Profits Tax for the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

Under the EIT Law and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25% during the six months ended 30 June 2018 and 2019, unless there is any preferential tax treatment applicable.

The Company's subsidiaries, Dongguan BPT and Dongguan NHE, obtained the qualification as high and new technology enterprises since 2010 and 2016, respectively, which are now renewing for an additional three years from financial year 2019, and they also completed the relevant filing requirements with the competent tax authorities. Hence, Dongguan BPT and Dongguan NHE are subject to the preferential tax treatment and the applicable tax rate for the six months ended 30 June 2018 and 2019 has been 15%.

Pursuant to the relevant Vietnam Enterprises Income Tax rules and regulations, the applicable tax rate for the subsidiary operating in Vietnam is 20%. The subsidiary in Vietnam is eligible for tax holiday for two financial years since the first financial year of taxable profit and tax concession at a tax rate of 10% for the following four financial years. With the additional incentive in place during the year ended 31 December 2018 and by fulfilling certain stated requirements, the subsidiary in Vietnam is eligible for tax holiday for four financial years since 2018, tax concession at a tax rate of 5% for the following nine financial years and tax concession at a tax rate of 10% for the next following two financial years.

Pursuant to the Inland Revenue Act, No. 24 of 2017 in Sri Lanka, the applicable tax rate for the subsidiaries operating in Sri Lanka is 28%. By fulfilling certain export requirements set by the Board of Investment of Sri Lanka, the subsidiaries of the Group in Sri Lanka have enjoyed a preferential tax rate of 14% for the six months ended 30 June 2019. In addition, one of these subsidiaries is currently eligible for tax holiday till the year ending 31 December 2024.

Taxation arising in any other jurisdiction is calculated at the rate prevailing in the relevant jurisdiction.

The effective tax rate was approximately 6.7% (for the six months ended 30 June 2018: 13.0%) for the six months ended 30 June 2019. The decrease in effective tax rate was mainly due to the overprovision in the PRC EIT in prior years and the profit contribution from the overseas operations in which the relevant subsidiaries are currently eligible for tax holiday.

Liquidity, financial resources and bank borrowings

As at 30 June 2019, net working capital (calculated as current assets less current liabilities) was approximately HK$378.7 million, representing a decrease of approximately HK$141.4 million as compared to approximately HK$520.1 million as at 31 December 2018. The current ratio (calculated as current assets/current liabilities) is 1.2 times as at 30 June 2019, as compared to 1.3 times as at 31 December 2018.

For the six months ended 30 June 2019, net cash generated from operating activities was approximately HK$177.9 million, as compared to approximately HK$300.6 million for the six months ended 30 June 2018, which was mainly due to the decrease in trade payables and bills payables. Net cash used in investing activities amounted to approximately HK$199.7 million for the six months ended 30 June 2019, as compared to approximately HK$265.0 million for the six months ended 30 June 2018. The decrease in net cash used in investing activities was mainly due to less investments being spent on purchase of property, plant and equipment for the six months ended 30 June 2019.

For the six months ended 30 June 2019, net cash from financing activities amounted to approximately HK$118.6 million, as compared to approximately HK$283.2 million for the six months ended 30 June 2018. The cash from financing activities for the six months ended 30 June 2019 was mainly from the new syndicated loan and bank borrowings raised.

As at 30 June 2019, the Group's gearing ratio was approximately 82.7% (as at 31 December 2018: approximately 73.5%), which was calculated on the basis of the amount of total bank and other borrowings and bank overdrafts as a percentage of total equity. As at 30 June 2019, the Group's net gearing ratio was 57.3% (as at 31 December 2018: 51.0%), which was calculated on the basis of the amount of net debt position (sum of bank deposits and bank balances and cash, less total bank and other borrowings and bank overdrafts) as a percentage of total equity. The Group was in a net debt position of approximately HK$1,424.1 million as at 30 June 2019, as compared to approximately HK$1,252.2 million as at 31 December 2018.

Working capital management

	For the six months/ year ended			
	30 June 2019 (days)	31 December 2018 (days)	Change (days)	%
Trade and bills receivables turnover days	**71.2**	78.3	(7.1)	(9.1)
Trade and bills payables turnover days	**80.2**	80.8	(0.6)	(0.7)
Inventory turnover days	**135.1**	117.6	17.5	14.9

The trade and bills receivables turnover days for the six months ended 30 June 2019 decreased by approximately 9.1% to 71.2 days as compared to the year ended 31 December 2018, which was mainly due to tighter measures in place to control receivables.

The trade and bills payables turnover days remained relatively stable for the year ended 31 December 2018 and the six months ended 30 June 2019.

The increase in inventory turnover days from 117.6 days for the year ended 31 December 2018 to 135.1 days for the six months ended 30 June 2019 was primarily attributable to the fact that more raw materials being purchased by the Group to prepare for the second half of the year, which is traditionally the peak season of a year with higher demands from customers, as well as the shorter production time as demanded by customers, in which more work-in-progress inventories were prepared.

Capital expenditures

For the six months ended 30 June 2019, total addition to property, plant and equipment amounted to approximately HK$188.3 million (for the six months ended 30 June 2018: approximately HK$267.8 million), and was mainly attributed to the addition to construction in progress of approximately HK$129.2 million (for the six months ended 30 June 2018: approximately HK$207.2 million) and the investment in machinery of approximately HK$50.0 million (for the six months ended 30 June 2018: approximately HK$45.3 million), in order to cope with the Group's overall business expansion.

Pledge of assets

As at 30 June 2019, the Group pledged bank deposits of approximately HK$60.2 million (31 December 2018: approximately HK$82.2 million) to secure the bills payables issued by the Group.

Segment information

Details of segment information are set out in Note 4 as disclosed above.

Foreign exchange risk

A substantial portion of the Group's revenue is denominated in US$ and HK$ and a portion of its purchases and expenses are denominated in RMB and Vietnam Dong. The Group manages its foreign exchange risk by performing regular reviews and monitoring its foreign exchange exposure. Our finance department monitors our foreign exchange risk on a continuous basis by analysing our domestic and overseas sales orders on hand, expected domestic and overseas orders from customers and estimated foreign currency payments for our purchases and expenses. We intend to manage our foreign exchange risks by (i) managing our sales, purchases and expenses denominated in HK$ and RMB through our subsidiaries in Hong Kong and the PRC, respectively, managing our sales, purchases and expenses denominated in US$ through our subsidiaries in Hong Kong, Vietnam and Sri Lanka, and managing our purchases and expenses denominated in Vietnam Dong through our subsidiary in Vietnam; and (ii) holding cash and bank deposits denominated in HK$ primarily by the Company and its subsidiaries in Hong Kong, holding cash and bank deposits denominated in US$ primarily by the Company and its subsidiaries in Hong Kong, Vietnam and Sri Lanka, and holding cash and bank deposits denominated in RMB and Vietnam Dong primarily by our subsidiaries in the PRC and Vietnam, respectively.

Contingent liabilities

As at 30 June 2019, the Group did not have any significant contingent liabilities.

Employees and remuneration policies

As at 30 June 2019, the Group employed a total of 7,345 full-time employees (as at 31 December 2018: 6,967). The increase in the number of employees was mainly due to the increase in business scale. There was no significant change in the Group's remuneration policy, and the Group will continue to provide regular training and competitive remuneration packages to its staff. The Group's remuneration packages include salary, bonuses, allowances and retirement benefits based on employee's performance, skills and knowledge. The Group also provides additional benefits to its employees that include subsidised accommodation, meals, accident and medical insurance and share options granted to eligible employees under the share option schemes of the Company.

FUTURE STRATEGIES AND PROSPECT

As mentioned in the section headed "FINANCIAL PERFORMANCE" above, Best Pacific has managed to improve its overall financial performance during the Reporting Period. Yet, we foresee the business environment may continue to be complicated and challenging in the forthcoming future, predominantly due to the shadow casted by the chaotic conflicts in international trade, the current situation in Europe and the consistently unfavourable manufacturing environment for the traditional industries in the PRC.

Based on the publication of the U.S. Bureau of Economic Analysis, the annual GDP growth rate in the U.S., being the Group's largest market, dropped to approximately 2.3% in the second quarter of 2019, comparing to the rates of approximately 3.2% and 2.5% in the second and fourth quarters of 2018, respectively. Together with the continual shade of the trade tension between the U.S. and the PRC, many exporters in the PRC had been struggling and reported subdued sets of financial data for the past years. In early August 2019, the U.S. further announced its plan to put additional tariffs on goods and products exporting from the PRC into the U.S. starting from September 2019.

Although the tariff threats are unlikely to impose significant and direct impact on the Group's overall business at the moment, Best Pacific strongly believes that only market leaders with multiple manufacturing bases and various distribution channels across international borders will stay competitive and be successful. With the launch of the Group's internationalisation plan back in 2017, Best Pacific has been receiving excellent recognition and applause from its customers, the brand owners who have been actively looking for partners which could help control their procurement risks.

Amidst the U.S.-China trade war, the Group remains optimistic about the manufacturing environment in Vietnam, which has become the second largest textile and garment provider to the U.S. market. With Phase I of our production site in Vietnam operating at a satisfactory utilisation rate, Best Pacific will continue its investment in Vietnam. Phase II of our Vietnam production site is expected to roll out in the second half of 2019 and we anticipate contribution from and significance of our Vietnam operation to the Group will continue to rise in the near future. As at 30 June 2019, the overall designed production capacities of elastic fabric, elastic webbing and lace of the Group were approximately 179.1 million meters, 1,793.2 million meters and 29.8 million meters, respectively, of which our Vietnam facilities contributed approximately 20% to 25% and 10% to 15% of the Group's overall production capacities for elastic fabric and elastic webbing, respectively.

In addition to our Vietnam operation, the Group is committed to ramping up its production facilities in Sri Lanka, subsequent to the establishment of the two joint ventures with two leading garment makers in the world, MAS Capital (Private) Limited and Brandix Lanka Limited. Once the facilities of these joint ventures are fully ramped up, they are expected to contribute for approximately 20% to 25% and 10% to 15% of the Group's then overall production capacities for elastic fabric and elastic webbing, respectively.

The continuous investment in overseas operations including Vietnam and Sri Lanka would certainly impose short-term pressure on the Group's operating margin. Nonetheless, the management believes that such internationalisation is necessary and will empower Best Pacific's competitiveness. Not only does it help Best Pacific to continue to gain market share from the global apparel market, but also contribute to a better profitability in the longer run.

With the president of the U.S. declaring the PRC a "currency manipulator" in August 2019, there has been a thread and general belief that China's international links will continue to wither, which in turn will lead to a deteriorating productivity and a shrinking capital in the country. The Group is committed to developing its domestic sales through its well-established manufacturing base in the PRC. With the rising athleisure trend in China, the Group has been successful in penetrating the sportswear and apparel markets and securing some new renowned domestic brand clients. The demand for apparel innovation is on the rise. Best Pacific is dedicated to devoting resources to our research and development so as to enhance the comfortableness and functionality of our products. Our PRC headquarters will continue to lead our professional teams with strong research and development capabilities, setting marketing strategies and providing one-stop solutions to meet clients' needs.

The momentum of economic development appeared to be gradually slowing down and the percent change of consumer price index ("**CPI**") issued by the Bureau of Labor Statistics in the U.S. decreased to approximately 1.6% for the twelve months ended 30 June 2019. Such rate was lower than the inflation target of 2% set by the Federal Open Market Committee (the "**Committee**"). Accordingly, in late July 2019, the Committee decided to lower the target range for the federal funds rate by 0.25 basis points to a range between 2% and 2.25%, being the first downward adjustment to the rate by the U.S. Federal Reserve in 11 years. Alongside the Group's continuous expansion which deploys funding from financial institutions, our management will continue to closely monitor our Group's overall debt position and interest rate exposure.

In this challenging operating environment, Best Pacific had taken transformative initiatives and maintained good business momentum in the first half of 2019. In particular, our sales of elastic fabric materials in the sportswear and apparel segment grew by approximately 44.6% for the six months ended 30 June 2019, as compared with the corresponding period in 2018. We continue to move closer to our one-stop solutions strategy that allows customers to manage their procurement of different core textile products at Best Pacific and at different geographical locations according to their needs. We are convinced that our business strategy and progress will continue enabling us to leverage on our existing competitive strengths, take advantage of new business opportunities and consolidate our market leadership in the changing apparel industry.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2019.

AUDIT COMMITTEE

The Audit Committee of the Company, comprising the three independent non-executive Directors (being Mr. Sai Chun Yu, Mr. Cheung Yat Ming and Mr. Ding Baoshan), has reviewed with the management the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2019 and the internal control procedures of the Group, and discussed the relevant financial reporting matters.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated results of the Group for the six months ended 30 June 2019 have been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA, by Deloitte Touche Tohmatsu, certified public accountants in Hong Kong, and the Audit Committee of the Company has no disagreement.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is of the view that throughout the six months ended 30 June 2019, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

APPRECIATION

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, bankers and other business associates for their trust and support.

By Order of the Board
Best Pacific International Holdings Limited
Lu Yuguang
Chairman

Hong Kong, 22 August 2019

As at the date of this announcement, the Board comprises Mr. Lu Yuguang, Mr. Zhang Haitao, Mr. Wu Shaolun, Ms. Zheng Tingting, Mr. Cheung Yat Ming, Mr. Ding Baoshan* and Mr. Sai Chun Yu*.*

* *Independent non-executive Director*