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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS

	For the year ended 31 December		Change	
	2019	2018		
	HK$'000	*HK$'000*	*HK$'000*	*%*
Revenue	**3,637,762**	3,212,625	425,137	13.2
Gross profit	**872,809**	791,961	80,848	10.2
Gross profit margin	**24.0%**	24.7%		-0.7% point
Profit for the year	**299,079**	280,232	18,847	6.7
Net profit margin	**8.2%**	8.7%		-0.5% point

- The Group's revenue for the year ended 31 December 2019 amounted to approximately HK$3,637.8 million, representing an increase of approximately 13.2% when compared to the year ended 31 December 2018.

  Sales revenue of elastic fabric achieved a year-on-year growth of approximately 22.9%. At the same time, the Group recorded a year-on-year growth of approximately 32.7% in sales revenue of sportswear and apparel fabric materials, in which such revenue increased from HK$939.9 million for the year ended 31 December 2018 to HK$1,247.1 million for the year ended 31 December 2019.

- The Group's gross profit for the year ended 31 December 2019 amounted to approximately HK$872.8 million, representing an increase of approximately 10.2% when compared to the year ended 31 December 2018.

- Profit attributable to owners of the Company for the year ended 31 December 2019 amounted to approximately HK$300.7 million, representing an increase of approximately 6.0% as compared to approximately HK$283.6 million for the year ended 31 December 2018.

  Net profit of the Group excluding the loss arising from the newly operated joint venture, Best Pacific Textiles Lanka (Pvt) Ltd, one of our indirect non-wholly owned subsidiaries in Sri Lanka, increased by approximately 17.5% from approximately HK$291.6 million for the year ended 31 December 2018 to approximately HK$342.5 million for the year ended 31 December 2019.

- Basic earnings per share was approximately HK28.92 cents for the year ended 31 December 2019, representing an increase of approximately 5.8% from approximately HK27.34 cents for the year ended 31 December 2018.

- Proposed to declare a final dividend of HK5.8 cents per share in respect of the year ended 31 December 2019 (2018: HK6.7 cents).

The board (the "**Board**") of directors (the "**Directors**") of Best Pacific International Holdings Limited (the "**Company**" or "**Best Pacific**" or "**We**") announces the consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2019, together with the comparative figures for the year ended 31 December 2018, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019** ***HK$'000***	2018 *HK$'000*
Revenue	*3*	**3,637,762**	3,212,625
Cost of sales		**(2,764,953)**	(2,420,664)
Gross profit		**872,809**	791,961
Other income		**32,138**	40,835
Other gains and losses		**9,450**	4,998
Selling and distribution expenses		**(170,294)**	(153,420)
Administrative expenses		**(221,665)**	(199,118)
Research and development costs		**(97,783)**	(91,450)
Share of result of a joint venture		**2,806**	3,346
Finance costs		**(90,815)**	(66,350)
Profit before taxation	*5*	**336,646**	330,802
Income tax expense	*6*	**(37,567)**	(50,570)
Profit for the year		**299,079**	280,232
Profit (loss) for the year attributable to			
– Owners of the Company		**300,724**	283,553
– Non-controlling interests		**(1,645)**	(3,321)
		299,079	280,232
Earnings per share	*8*		
– Basic (HK cents)		**28.92**	27.34
– Diluted (HK cents)		**28.92**	27.29

	2019	2018
	HK$'000	*HK$'000*
Profit for the year	**299,079**	280,232
Other comprehensive (expense) income:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(73,573)**	(141,249)
Share of translation reserve of a joint venture	**(390)**	(612)
Items that will not be reclassified to profit or loss:		
Fair value gain on investment in a partnership	**1,981**	900
Remeasurement of retirement benefit obligations, net of tax	**137**	1,808
Other comprehensive expense for the year	**(71,845)**	(139,153)
Total comprehensive income for the year	**227,234**	141,079
Total comprehensive income (expense) for the year attributable to		
– Owners of the Company	**228,814**	143,654
– Non-controlling interests	**(1,580)**	(2,575)
	227,234	141,079

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		**2,893,902**	2,703,094
Right-of-use assets		**246,804**	–
Prepaid lease payments		**–**	118,331
Interest in a joint venture		**31,408**	35,147
Deposits		**87,881**	80,928
Investment in a partnership		**–**	18,642
Deferred tax assets		**8,824**	4,371
		3,268,819	2,960,513
Current assets			
Inventories		**1,065,160**	865,105
Prepaid lease payments		**–**	2,987
Trade and bills receivables	*9*	**754,490**	730,661
Other receivables, deposits and prepayments		**86,777**	74,806
Tax recoverables		**17,375**	–
Pledged bank deposits		**76,823**	82,220
Short term bank deposits		**19,010**	12,249
Bank balances and cash		**576,773**	459,894
		2,596,408	2,227,922
Current liabilities			
Trade payables	*10*	**246,337**	208,961
Bills payables	*10*	**386,546**	396,142
Other payables and accrued charges		**237,261**	222,676
Contract liabilities		**40,964**	56,493
Bank borrowings	*11*	**1,612,894**	789,696
Lease liabilities		**10,474**	–
Tax payables		**22,713**	21,438
Bank overdrafts	*11*	**32,225**	12,385
		2,589,414	1,707,791
Net current assets		**6,994**	520,131
Total assets less current liabilities		**3,275,813**	3,480,644

	Notes	**2019**	2018
		HK$'000	*HK$'000*
Non-current liabilities			
Bank and other borrowings	*11*	**574,201**	1,004,462
Lease liabilities		**62,926**	–
Derivative financial instrument		**1,403**	3,195
Deferred income		**3,860**	5,282
Deferred tax liabilities		**11,423**	4,825
Retirement benefit obligations		**6,922**	5,460
		660,735	1,023,224
Net assets		**2,615,078**	2,457,420
Capital and reserves			
Share capital	*12*	**10,398**	10,397
Reserves		**2,521,497**	2,362,260
Equity attributable to owners of the Company		**2,531,895**	2,372,657
Non-controlling interests		**83,183**	84,763
Total equity		**2,615,078**	2,457,420

NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME AND STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 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 also the Chairman and executive director 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 consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

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 and interpretation in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

2.1 HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases", and the related interpretations.

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**"), the Socialist Republic of Vietnam ("**Vietnam**") and the Democratic Socialist Republic of Sri Lanka ("**Sri Lanka**") 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.

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.

	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, Vietnam and 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 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 *HK$'000*	Adjustments *HK$'000*	**Carrying amounts under HKFRS 16 at 1 January 2019** ***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 year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

3. 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.

Disaggregation of revenue from contracts with customers

Revenue from manufacturing and trading of elastic fabric, lace and elastic webbing are recognised at a point in time.

For the year ended 31 December 2019

	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	**1,393,996**	**–**	**1,393,996**
– Sportswear and apparel	**1,247,079**	**–**	**1,247,079**
	2,641,075	**–**	**2,641,075**
Lace	**86,522**	**–**	**86,522**
Elastic webbing	**–**	**910,165**	**910,165**
	2,727,597	**910,165**	**3,637,762**

For the year ended 31 December 2018

	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	1,208,905	–	1,208,905
– Sportswear and apparel	939,909	–	939,909
	2,148,814	–	2,148,814
Lace	116,865	–	116,865
Elastic webbing	–	946,946	946,946
	2,265,679	946,946	3,212,625

4. **SEGMENT INFORMATION**

The financial information reported to 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 high-end 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 year ended 31 December 2019

	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	**2,727,597**	**910,165**	**3,637,762**
Segment profits	**229,489**	**182,803**	**412,292**
Unallocated other income			**14,453**
Unallocated other gains and losses			**17,142**
Unallocated corporate expenses			**(19,232)**
Share of result of a joint venture			**2,806**
Finance costs			**(90,815)**
Profit before taxation			**336,646**

For the year ended 31 December 2018

	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	2,265,679	946,946	3,212,625
Segment profits	218,109	185,646	403,755
Unallocated other income			14,414
Unallocated other gains and losses			12,667
Unallocated corporate expenses			(37,030)
Share of result of a joint venture			3,346
Finance costs			(66,350)
Profit before taxation			330,802

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment profit represents the results of each segment without allocation of corporate items including mainly bank interest income, change in fair value of derivative financial instrument, net foreign exchange gain, share of result of a joint venture, corporate expenses and finance costs. Corporate expenses include directors' remuneration paid or payable by the Group and certain administrative expenses for corporate function. 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 segment:

As at 31 December 2019

	Manufacturing and trading of elastic fabric and lace *HK$'000*	Manufacturing and trading of elastic webbing *HK$'000*	Total *HK$'000*
ASSETS			
Segment assets	4,348,295	718,831	5,067,126
Property, plant and equipment			318
Interest in a joint venture			31,408
Deferred tax assets			8,824
Other receivables, deposits and prepayments			67,570
Tax recoverables			17,375
Pledged bank deposits			76,823
Short term bank deposits			19,010
Bank balances and cash			576,773
Total assets			5,865,227
LIABILITIES			
Segment liabilities	802,530	182,435	984,965
Other payables and accrued charges			10,325
Bank and other borrowings			2,187,095
Tax payables			22,713
Deferred tax liabilities			11,423
Derivative financial instrument			1,403
Bank overdrafts			32,225
Total liabilities			3,250,149

As at 31 December 2018

	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
Other payables and accrued charges			16,168
Bank and other borrowings			1,794,158
Tax payables			21,438
Deferred tax liabilities			4,825
Derivative financial instrument			3,195
Bank overdrafts			12,385
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 property, plant and equipment for corporate use (including the prepaid lease payments and property and plant under construction in Sri Lanka as at 31 December 2018), deferred tax assets, interest in a joint venture, investment in a partnership, tax recoverables, 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, tax payables, deferred tax liabilities, derivative financial instrument, bank overdrafts and certain corporate liabilities.

Other segment information

For the year ended 31 December 2019

	Manufacturing and trading of elastic fabric and lace *HK$'000*	**Manufacturing and trading of elastic webbing** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
Amounts included in the measure of segment profit or segment assets:				
Additions of property, plant and equipment	**432,684**	**89,631**	**101**	**522,416**
Additions of right-of-use assets	**68,093**	**2,192**	**–**	**70,285**
Depreciation of property, plant and equipment	**205,496**	**56,164**	**490**	**262,150**
Depreciation of right-of-use assets	**12,574**	**6,335**	**–**	**18,909**
Net remeasurement of credit loss allowance for trade receivables	**(23)**	**2,367**	**–**	**2,344**

For the year ended 31 December 2018

	Manufacturing and trading of elastic fabric and lace *HK$'000*	Manufacturing and trading of elastic webbing *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Amounts included in the measure of segment profit or segment assets:				
Additions of property, plant and equipment	314,349	135,064	199,083	648,496
Additions of property, plant and equipment through acquisition of a subsidiary	128,189	–	–	128,189
Additions of prepaid leased payments	–	–	20,130	20,130
Additions of prepaid leased payments through acquisition of a subsidiary	2,000	–	–	2,000
Depreciation of property, plant and equipment	180,698	53,558	562	234,818
Amortisation of prepaid lease payments	2,102	537	254	2,893
Net remeasurement of credit loss allowance for trade receivables	1,284	6,802	–	8,086

Other than the segment information disclosed above, there was no other information reviewed by the CODM for both years.

Geographical information

The Group's operations are located in the PRC, Hong Kong, Vietnam, Sri Lanka and the United States of America (the "**U.S.**"). The Group's revenue from external customers based on the location of the customers are detailed below:

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Hong Kong	**1,138,472**	1,075,111
The PRC	**750,122**	738,156
Sri Lanka	**652,090**	539,982
Vietnam	**205,313**	201,035
South Korea	**124,767**	54,277
Indonesia	**118,079**	116,957
Europe and the U.S.	**111,190**	89,217
Thailand	**99,778**	101,812
India	**61,443**	66,746
Others	**376,508**	229,332
	3,637,762	3,212,625

Non-current assets (excluding financial assets and deferred tax assets) by geographical location of assets are detailed below:

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
The PRC	**1,769,704**	1,846,926
Vietnam	**925,959**	743,001
Sri Lanka	**544,460**	337,346
Hong Kong	**19,872**	10,227
	3,259,995	2,937,500

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group for the years ended 31 December 2019 and 2018 are as follows:

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Revenue from manufacturing and trading of elastic fabric and lace		
– customer A	**450,106**	411,252
– customer B	**439,136**	361,094
Revenue from manufacturing and trading of elastic webbing		
– customer A	**79,887**	91,486
– customer B	**63,192**	72,003

5. PROFIT BEFORE TAXATION

	2019 *HK$'000*	2018 *HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration	**2,350**	2,218
Staff costs		
Directors' remuneration	**12,495**	12,711
Other staff costs		
– salaries and other benefits	**618,722**	520,490
– contributions to retirement benefits schemes	**44,861**	40,029
	676,078	573,230
Depreciation of property, plant and equipment	**262,150**	234,818
Depreciation capitalised in inventories	**(198,633)**	(176,986)
Depreciation of right-of-use assets	**18,909**	N/A
	82,426	57,832
Release of prepaid lease payments	**N/A**	2,893
Minimum lease payments in respect of rented premises	**N/A**	23,674
Cost of inventories recognised as an expense	**2,764,953**	2,420,664

6. INCOME TAX EXPENSE

	2019 *HK$'000*	2018 *HK$'000*
Current tax:		
Hong Kong Profits Tax	**5,417**	18,733
The PRC Enterprise Income Tax ("**EIT**")	**35,686**	37,077
Withholding tax on dividends from subsidiaries	**4,016**	–
Under(over)provision in prior years:		
Hong Kong Profits Tax	**49**	137
The PRC EIT	**(9,633)**	(6,234)
	35,535	49,713
Deferred taxation	**2,032**	857
	37,567	50,570

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 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 PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25% for both years ended 31 December 2019 and 2018, 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 years ended 31 December 2019 and 2018 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 the fulfillment of certain stated requirements by the Vietnam tax authority, 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 years ended 31 December 2019 and 2018. 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

	2019	2018
	HK$'000	*HK$'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2018 Final dividend – HK6.7 cents (2018: 2017 Final dividend HK5.9 cents) per share	**69,667**	61,161

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of HK5.8 cents per ordinary share (approximately HK$60.3 million in aggregate) has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

8. EARNINGS PER SHARE

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

	2019	2018
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company) (HK$'000)	**300,724**	283,553
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,039,784,712**	1,037,062,767
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**12,746**	1,824,717
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,039,797,458**	1,038,887,484

9. TRADE AND BILLS RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**746,950**	753,559
Less: Allowance for credit losses	**(26,902)**	(24,648)
Total trade receivables	**720,048**	728,911
Bills receivables	**34,442**	1,750
Total trade and bills receivables	**754,490**	730,661

Trade receivables mainly represent receivables from customers in relation to the sales of elastic fabric, lace and elastic webbing. 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 ageing analysis of trade receivables net of credit loss allowance presented based on the date of issuance of monthly statements at the end of each reporting period and ageing analysis of bills receivables presented based on the date of issuance of the bills at the end of each reporting period.

	2019	2018
	HK$'000	*HK$'000*
Trade receivables		
0 – 90 days	**644,579**	681,459
91 – 180 days	**49,948**	29,581
Over 180 days	**25,521**	17,871
	720,048	728,911
Bills receivables		
0 – 90 days	**34,442**	1,750
	754,490	730,661

10. TRADE AND BILLS PAYABLES

Trade payables

The credit period granted by the Group's creditors ranges from approximately 1 month to 3 months. The following is an ageing analysis of trade payables presented based on the invoice date at the end of each reporting period:

	2019	2018
	HK$'000	*HK$'000*
0 – 90 days	**230,488**	192,771
Over 90 days	**15,849**	16,190
	246,337	208,961

Bills payables

The bills payables are secured by pledged bank deposits. The following is an ageing analysis of bills payables presented based on the date of issuance of the bills at the end of each reporting year:

	2019	2018
	HK$'000	*HK$'000*
0 – 90 days	**266,328**	261,009
91 – 180 days	**120,218**	135,133
	386,546	396,142

11. BANK AND OTHER BORROWINGS/BANK OVERDRAFTS

	2019	2018
	HK$'000	*HK$'000*
Bank overdrafts	**32,225**	12,385
Unsecured syndicated loan	**949,401**	1,194,265
Unsecured bank borrowings	**1,218,194**	594,043
Unsecured other borrowing *(Note)*	**19,500**	5,850
	2,219,320	1,806,543
Carrying amount repayable*:		
Within one year	**1,435,920**	727,981
More than one year, but not exceeding two years	**441,047**	660,931
More than two years, but not exceeding five years	**342,353**	417,631
	2,219,320	1,806,543
Less: Amounts due within one year or contain a repayment on demand clause shown under current liabilities	**(1,645,119)**	(802,081)
Amounts shown under non-current liabilities	**574,201**	1,004,462
Carrying amount of bank borrowings that are repayable within one year and contain a repayment on demand clause	**1,036,928**	532,328
Carrying amount of bank borrowings that are repayable more than one year but contain a repayment on demand clause	**209,199**	74,100
	1,246,127	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 in December 2021. Such other borrowing is denominated in United States Dollars ("**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 ("**HIBOR**") plus 2.2% for HK$ loan tranche and LIBOR plus 2.2% 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 31 December 2019 and 2018.

The Group has floating-rate borrowings which carry interest at HIBOR plus 1.40% to 2.50% or LIBOR plus 1.40% to 2.75% (2018: HIBOR plus 1.50% to 2.50% or LIBOR plus 1.40% to 2.40%) per annum.

12. SHARE CAPITAL

The detailed movements of the Company's share capital is set out below.

	Number of shares	**Amount**	
		HK$	*HK$'000*
Ordinary shares of HK$0.01 each			
Authorised:			
At 1 January 2018 and 31 December 2018 and 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)*	3,215,000	32,150	32
At 31 December 2018	1,039,723,000	10,397,230	10,397
Issue of shares upon exercise of share options *(Note b)*	85,000	850	1
At 31 December 2019	1,039,808,000	10,398,080	10,398

All shares issued rank pari passu with other existing shares in all aspects.

Notes:

(a) On 17 January 2018, 18 September 2018, 2, 13 and 16 November 2018 and 14 December 2018, the Company issued 120,000, 100,000, 1,000,000, 1,500,000, 275,000 and 220,000 shares respectively upon the exercise of share options by two directors and certain employees.

(b) On 11 April 2019, the Company issued 85,000 shares upon the exercise of share options by certain employees.

CHAIRMAN'S STATEMENT

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

The year 2019 is another difficult and complicated year. Ongoing concerns on the international trade order and other geographical factors continue to add pressure on the global economy. The gross domestic product ("**GDP**") in the PRC expanded by 6.1% in 2019, which has decreased from a growth rate of 6.7% in 2018 and was the slowest rate since 1990, reflecting the softening of trade activities and the decrease in export demands as a result of the trade conflicts between the U.S. and the PRC, which also pulled off growth in industrial production and manufacturing investments.

With the decrease in consumer spending and restrained business activities, the annualised GDP rose by 2.1% in the forth-quarter of 2019 in the U.S., as compared to the 2.9% increase in 2018 and the 2.4% increase in 2017, which was well below the U.S. government projection of 3% growth after the issuance of the 2017 tax bill that reduced corporate and individual rates. The unsatisfactory growth in GDP was mainly due to the decrease in the investment in structures and equipment in the U.S., as well as drops in imports and exports of goods. Moreover, the U.S. Personal Consumption Expenditures Price Index in December 2019 only increased by 1.6% year-to-year, which failed to meet the inflation target of 2 percentage points as set by the U.S. Federal Reserve. The situation in Europe was even tougher, with the unemployment rate standing at 7.4% in December 2019. According to the data published by the European Union, the GDP in the area edged up around 1.0% year-to-year in the forth-quarter of 2019, being the weakest growth rate since 2013.

Despite the challenging business environment around the globe, our actions to build a more agile and resilient corporate in the past years had proven our ability to thrive in all kinds of market conditions and act swiftly on new opportunities. Taking the transformative initiatives, Best Pacific had executed its internationalisation blueprint smoothly, with Phase II of our production site in Vietnam and Phase I of our joint venture with Brandix Lanka Limited in Sri Lanka being completed successfully in the second half of 2019, the additional production capacities brought by these two developments had enabled the Group to further promote its high quality products to customers with operations in areas who can enjoy the tariff concessions as stated in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and in the Generalised Scheme of Preferences Plus, respectively.

The Group had maintained moderate business momentum in 2019 and our overall business had continued to expand at a double-digit growth rate. With the enormous potentials in the sportswear and apparel markets, the Group had succeeded in both seizing more business opportunities from existing customers as well as locating new clients. For the year ended 31 December 2019, the Group achieved an inspiring growth of approximately 22.9% in its overall sales of elastic fabric, as compared to the year ended 31 December 2018.

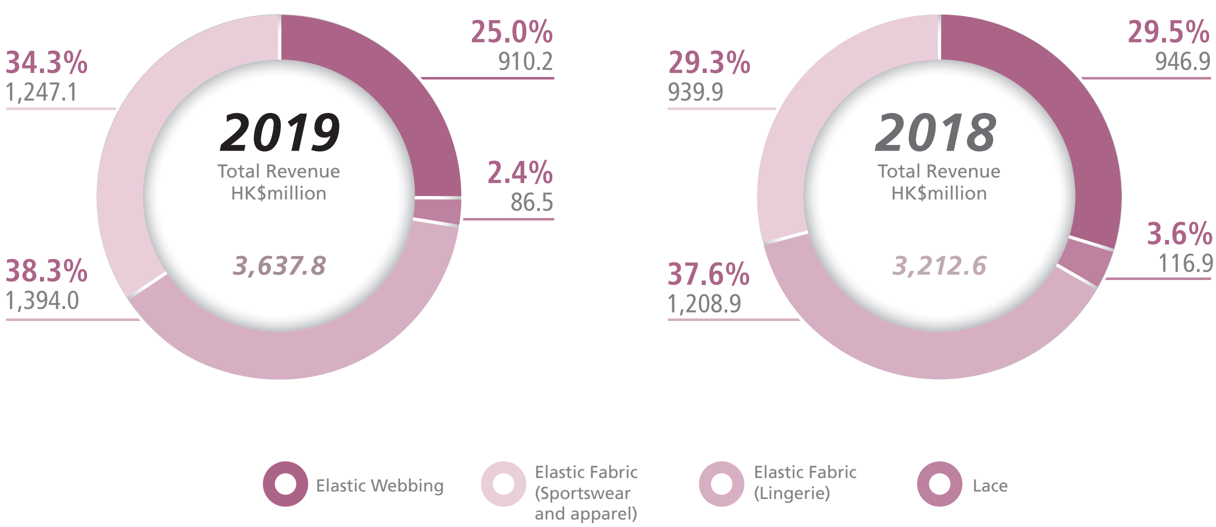
Due to the recent coronavirus outbreak around the world, it is expected that 2020 will yet to be another very challenging year, for all industries and manufacturing sectors will be no exception. Nevertheless, Best Pacific, being one of the fast movers in the industry, has laid a solid foundation and we believe that the true value of internationalisation is yet to be fully revealed. The management at Best Pacific will continue to put unremitting efforts and work with its customers, business partners and shareholders to make Best Pacific a world-class textile player, thereby delivering promising returns to its investors in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Trade figures for 2019 had not been encouraging before the U.S. and the PRC concluded their trade agreement in January 2020. According to the General Administration of Customs of the PRC, China's export growth slowed down to a three-year low at 0.5% in dollar terms in 2019 which was the result of the trade tensions between the U.S. and the PRC and a slowing global economy. Specifically, exports to the U.S. in 2019 had recorded a decline by 12.5% in dollar terms, as compared to an increase of 11.3% for the corresponding period in 2018.

For Best Pacific, the momentum in business expansion continued in 2019, where the total revenue for the year ended 31 December 2019 amounted to approximately HK$3,637.8 million, representing a growth of approximately 13.2% when compared to the year ended 31 December 2018. Our core value "Built on Innovation and Technology" remained the foundation and the vision of the Group and the sales revenue of sportswear and apparel fabric materials had registered a promising year-on-year growth of approximately 32.7%, in which such revenue increased from approximately HK$939.9 million for the year ended 31 December 2018 to approximately HK$1,247.1 million for the year ended 31 December 2019.



As the overall lingerie market tended to be sluggish, business from the majority long-established lingerie customers did not seem to show supportive growth. Having said so, there was an increasing trend with intimate wear products which exhibited both comfort and modern fashion. Leveraging on Best Pacific's high product quality, strong innovation and research and development capabilities, we were able to both maintain an overall stable business from the long-established customers and to secure more orders from new large-scale customers.

With the intensive market competition and consolidation in the past few years, the Group had kicked off its internationalisation plan since 2017 and had successfully set up its production base in Vietnam and Sri Lanka. However, the relevant diversification into new geographical domains would not come without costs. The expansion, ramp-up and associated finance costs in funding these manufacturing capacities set up would inevitably pose a negative impact on the Group's profitability in the short run.

Overseas expansion – Vietnam

According to the General Statistics Office of Vietnam, the export value of textiles and garments reached approximately US$32.9 billion in 2019, representing a significant increase of approximately 7.7% as compared to 2018 and remained as one of the top 3 export categories. Customers have shown increasing interests to our overseas capabilities in 2019, in which time Vietnam was perceived to be the key beneficiary of the U.S. – PRC trade war. Our operation in Vietnam, being the first overseas expansion project of Best Pacific, had been launched successfully and progressed as the management expected. Discounts in trade tariffs, local tax incentive and relatively more competitive manufacturing environment had certainly helped Best Pacific to grow its market share as well as to attain an improved profitability at the new establishment.

Overseas expansion – Sri Lanka

Our two joint ventures (the "**JV(s)**") with the two reputable apparel and textile manufacturing market leaders, namely MAS Holdings (Pvt) Ltd and Brandix Lanka Limited, in Sri Lanka, had progressed according to our management's expectation. With reference to Trischel Fabric (Private) Limited, an overall net profit position had been achieved during the year under review. As to Best Pacific Textiles Lanka (Pvt) Ltd, another non-wholly owned subsidiary of the Company in Sri Lanka, the relevant trial production had officially been started in September 2019 and an overall loss of approximately HK$33.9 million was resulted for the year ended 31 December 2019. Nevertheless, we believe that the strategic partnerships with the JV partners will allow the Group to leverage on their well-established position in the global apparel market and to facilitate the development of these JVs and the Group in the long run.

FINANCIAL REVIEW

Revenue

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

For the year ended 31 December 2019, revenue amounted to approximately HK$3,637.8 million, representing an increase of approximately HK$425.2 million, or approximately 13.2%, from approximately HK$3,212.6 million for the year ended 31 December 2018. The increase in overall revenue during the year under review was mainly attributable to the increase in revenue from elastic fabric which was the result of the continual expansion into the lingerie as well as the sportswear and apparel materials markets. Such increase in the volume of products sold by the Group was echoed following the acquisition of a non-wholly owned subsidiary of the Company in Sri Lanka in August 2018.

A comparison of the Group's revenue for the years ended 31 December 2018 and 2019 by product categories is as follows:

	For the year ended 31 December					
	2019		2018		Change	
	Revenue ***(HK$'000)***	**% of Revenue**	Revenue *(HK$'000)*	% of Revenue	*(HK$'000)*	%
Elastic fabric	**2,641,075**	**72.6**	2,148,814	66.9	492,261	22.9
Elastic webbing	**910,165**	**25.0**	946,946	29.5	(36,781)	(3.9)
Lace	**86,522**	**2.4**	116,865	3.6	(30,343)	(26.0)
Total	**3,637,762**	**100.0**	3,212,625	100.0	425,137	13.2

For the year ended 31 December 2019, revenue from sales of elastic fabric amounted to approximately HK$2,641.1 million, representing an increase of approximately HK$492.3 million, or approximately 22.9%, as compared to the year ended 31 December 2018. In addition to the increase in the volume of products sold (relevant revenue amounted to approximately HK$325.2 million) which was brought about by the establishment of JVs in Sri Lanka, the Group had successfully won several core programmes from both existing clients and brand new customers. Besides, by leveraging on its strong innovation and research and development capabilities, and by fostering relationships with different sportswear and apparel brands, the Group continued to expand into the sportswear and apparel materials markets. In 2019, the Group recorded a year-on-year growth of approximately 32.7% in sales revenue of sportswear and apparel fabric materials, in which such revenue increased from HK$939.9 million for the year ended 31 December 2018 to HK$1,247.1 million for the year ended 31 December 2019.

With the overall lukewarm lingerie market, sales from elastic webbing and lace was on the decline, revenue from sales of elastic webbing amounted to approximately HK$910.2 million for the year ended 31 December 2019, representing a decrease of approximately HK$36.7 million, or approximately 3.9%, as compared to the year ended 31 December 2018. The volume sold during the year ended 31 December 2019 reduced by approximately 2.7% as compared to the year ended 31 December 2018.

Revenue from sales of lace decreased from approximately HK$116.9 million for the year ended 31 December 2018 to approximately HK$86.5 million for the year ended 31 December 2019. The year-on-year decrease of approximately 26.0% was mainly due to the decrease in sales volume of lace in the year ended 31 December 2019, as compared to the year ended 31 December 2018.

Cost of sales

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

Cost of sales – by nature of expense

	For the year ended 31 December					
	2019		2018		Change	
	(HK$'000)	*%*	*(HK$'000)*	*%*	*(HK$'000)*	*%*
Raw materials	**1,446,828**	**52.3**	1,284,803	53.1	162,025	12.6
Manufacturing overheads	**1,023,099**	**37.0**	875,416	36.1	147,683	16.9
Direct labour	**276,603**	**10.0**	246,333	10.2	30,270	12.3
Others	**18,423**	**0.7**	14,112	0.6	4,311	30.5
Total	**2,764,953**	**100.0**	2,420,664	100.0	344,289	14.2

The Group's cost of sales for the year ended 31 December 2019 amounted to approximately HK$2,765.0 million, representing an increase of approximately HK$344.3 million, or approximately 14.2%, as compared to the year ended 31 December 2018. The increase in our cost of sales was primarily due to the increase in overall sales volume, which was driven by the Group's continued business and capacity expansion.

Cost of sales – by product category

	For the year ended 31 December					
	2019		2018		Change	
	(HK$'000)	*%*	*(HK$'000)*	*%*	*(HK$'000)*	*%*
Elastic fabric	**2,107,709**	**76.2**	1,705,448	70.5	402,261	23.6
Elastic webbing	**614,152**	**22.2**	651,805	26.9	(37,653)	(5.8)
Lace	**43,092**	**1.6**	63,411	2.6	(20,319)	(32.0)
Total	**2,764,953**	**100.0**	2,420,664	100.0	344,289	14.2

For the year ended 31 December 2019, the cost of sales of elastic fabric as a percentage of the total cost of sales increased by approximately 5.7 percentage points year-on-year while the cost of sales of elastic webbing as a percentage of the total cost of sales decreased by approximately 4.7 percentage points. It was mainly due to the overall increase in sales volume of elastic fabric during the year ended 31 December 2019.

Gross profit, gross profit margin and net profit margin

	For the year ended 31 December			
	2019		2018	
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin
	(HK$'000)	***(%)***	*(HK$'000)*	*(%)*
Elastic fabric	**533,366**	**20.2**	443,366	20.6
Elastic webbing	**296,013**	**32.5**	295,141	31.2
Lace	**43,430**	**50.2**	53,454	45.7
Total	**872,809**	**24.0**	791,961	24.7

The Group had maintained a relatively stable profitability with the overall gross profit increasing from approximately HK$792.0 million for the year ended 31 December 2018 to approximately HK$872.8 million for the year ended 31 December 2019, which was generally in line with the increase in overall revenue of the Group.

Net profit for the year ended 31 December 2019 amounted to approximately HK$299.1 million, representing an increase of approximately 6.7% as compared to approximately HK$280.2 million for the year ended 31 December 2018. The Group recorded a lower net profit margin of approximately 8.2% for the year ended 31 December 2019, representing a decline of approximately 0.5 percentage point, as compared to the year ended 31 December 2018. The decrease in net profit margin for the year ended 31 December 2019 was mainly due to (i) a lower gross profit margin attained; (ii) the start-up costs of the operations in Sri Lanka; and (iii) the increase in finance costs.

Profitability of the Group assuming to exclude the relevant loss of the newly set-up JV, namely Best Pacific Textiles Lanka (Pvt) Ltd was as follows:

For the year ended 31 December 2019

	The Group excluding BPTL^	**The Group**	**Difference**	
	HK$'000	***HK$'000***	***HK$'000***	***%***
Revenue	**3,628,053**	**3,637,762**	**(9,709)**	**-0.3%**
Gross profit	**890,043**	**872,809**	**17,234**	**2.0%**
Gross profit margin	**24.5%**	**24.0%**		**0.5% point**
Profit for the year	**342,518**	**299,079**	**43,439**	**14.5%**
Net profit margin	**9.4%**	**8.2%**		**1.2% points**

^ BPTL refers to Best Pacific Textiles Lanka (Pvt) Ltd, a non-wholly owned subsidiary of the Group.

For the year ended 31 December 2018

	The Group excluding BPTL	The Group	Difference	
	HK$'000	*HK$'000*	*HK$'000*	*%*
Revenue	3,212,625	3,212,625	–	0.0%
Gross profit	791,961	791,961	–	0.0%
Gross profit margin	24.7%	24.7%		–
Profit for the year	291,632	280,232	11,400	4.1%
Net profit margin	9.1%	8.7%		0.4% point

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 years indicated:

	For the year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Net proceeds from sales of scrap materials	**10,435**	7,134
Bank interest income	**6,996**	9,179
Government grants	**6,052**	16,508
Others	**8,655**	8,014
Total	**32,138**	40,835

The decrease in other income by approximately 21.3%, from approximately HK$40.8 million for the year ended 31 December 2018 to approximately HK$32.1 million for the year ended 31 December 2019, was mainly the result of the aggregate net effect of the decreases in government grants and bank interest income received and the increase in net proceeds from sales of scrap materials.

Other gains and losses

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

For the year ended 31 December 2019, the net foreign exchange gain was approximately HK$13.8 million (for the year ended 31 December 2018: approximately HK$11.4 million), the net remeasurement of credit loss allowance for trade receivables was approximately HK$2.3 million (for the year ended 31 December 2018: HK$8.1 million) and the change in fair value of derivative financial instrument was approximately HK$1.8 million (for the year ended 31 December 2018: approximately HK$1.2 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 years ended 31 December 2018 and 2019, the Group's selling and distribution expenses represented approximately 4.8% and 4.7% of its total revenue, respectively.

Administrative expenses

Administrative expenses primarily consist of employee benefit expenses, depreciation and amortisation, motor vehicle expenses, bank charges and other administrative expenses. For the years ended 31 December 2018 and 2019, the Group's administrative expenses represented approximately 6.2% and 6.1% 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 years ended 31 December 2018 and 2019, the Group's research and development costs represented approximately 2.8% and 2.7% of its total revenue, respectively.

Finance costs

The Group's finance costs mainly represent interest expenses for bank borrowings and lease liabilities. The finance costs increased by approximately 36.7% from approximately HK$66.4 million for the year ended 31 December 2018 to approximately HK$90.8 million for the year ended 31 December 2019. The increase in finance costs was primarily due to (i) the increase in average balance of bank borrowings as a result of continuous expansion in the Group's production scale throughout the year; and (ii) the relevant finance costs on lease liabilities recorded upon the adoption of Hong Kong Financial Reporting Standard 16 "Leases".

Income tax expenses

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 current year, 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 PRC on the EIT Law and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25% for both years ended 31 December 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 years ended 31 December 2019 and 2018 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 the fulfillment of certain stated requirements by the Vietnam tax authority, 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 years ended 31 December 2019 and 2018. 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 11.2% (for the year ended 31 December 2018: 15.3%) for the year ended 31 December 2019. The drop in effective tax rate was mainly due to more profits being generated from operations in jurisdictions in which favourable tax incentives are in place.

Liquidity, financial resources and bank borrowings

As at 31 December 2019, net working capital (calculated as current assets less current liabilities) was approximately HK$7.0 million, representing a decrease of approximately HK$513.1 million as compared with 31 December 2018. The current ratio (calculated as current assets/current liabilities) is at 1.0 time as at 31 December 2019 as compared to 1.3 times as at 31 December 2018. The decrease in net working capital and current ratio were mainly due to part of a term loan, amounted to HK$400 million, under a committed syndicated loan will be matured in 2020 and therefore such amount had become current liabilities as at 31 December 2019. On the other hand, the unutilised revolving loan facilities under the committed syndicated loan, amounted to HK$840 million, is available for drawdown as at 31 December 2019 and up to 13 April 2021.

For the year ended 31 December 2019, net cash generated from operating activities decreased from approximately HK$563.0 million for the year ended 31 December 2018 to approximately HK$407.8 million for the year ended 31 December 2019, which was mainly due to increase in inventories along with expansion in overseas operations.

Net cash used in investing activities amounted to approximately HK$512.7 million for the year ended 31 December 2019, as compared to net cash used in investing activities amounting to approximately HK$654.9 million for the year ended 31 December 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 year ended 31 December 2019.

During the year ended 31 December 2019, net cash from financing activities amounted to approximately HK$210.2 million, as compared to net cash from financing activities of approximately HK$372.6 million for the year ended 31 December 2018. The decrease in net cash from financing activities for the year ended 31 December 2019 was mainly due to lower net amounts borrowed from banks as compared to the year ended 31 December 2018.

As at 31 December 2019, the Group's net gearing ratio was 59.1% (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$1,546.7 million as at 31 December 2019, as compared to a net debt position of approximately HK$1,252.2 million as at 31 December 2018.

Working capital management

	For the year ended 31 December		Change	
	2019	2018	*(days)*	*(%)*
Trade and bills receivables turnover days	**74.5**	78.3	(3.8)	(4.9)
Trade and bills payables turnover days	**81.7**	80.8	0.9	1.1
Inventory turnover days	**127.4**	117.6	9.8	8.3

The decrease in trade and bills receivables turnover days for the year ended 31 December 2019 by approximately 3.8 days was primarily due to improved control and efficiency in managing the repayment from customers.

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

The increase in inventory turnover days from 117.6 days for the year ended 31 December 2018 to 127.4 days for the year ended 31 December 2019 was primarily attributable to the establishment of our overseas operations.

Capital expenditure

For the year ended 31 December 2019, total addition to property, plant and equipment amounted to approximately HK$522.4 million (for the year ended 31 December 2018: approximately HK$648.5 million), which was mainly attributed to the investment in machinery of approximately HK$400.3 million (for the year ended 31 December 2018: approximately HK$264.4 million) as well as the construction in progress of approximately HK$74.1 million (for the year ended 31 December 2018: approximately HK$346.9 million) to overall business expansion. The increase in investment in machinery was mainly due to the Phase II development of our Vietnam production site and the Phase I development of our joint venture with Brandix Lanka Limited in Sri Lanka being completed in the second half of 2019.

Pledge of assets

As at 31 December 2019, the Group pledged certain bank deposits, amounting to approximately HK$76.8 million (as at 31 December 2018: approximately HK$82.2 million), to secure the bills payables issued by the Group.

Contingent liabilities

As at 31 December 2019, the Group did not have any significant contingent liabilities.

Events after the reporting period

Save as disclosed in this announcement, the Group has no other significant events after the reporting period and up to the date of this announcement.

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 risk 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 and Vietnam, 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 and Vietnam, and holding cash and bank deposits denominated in RMB and Vietnam Dong primarily by our subsidiaries in the PRC and Vietnam, respectively.

Employees and remuneration policies

As at 31 December 2019, the Group employed a total of 7,437 full-time employees (as at 31 December 2018: 6,967). The increase in the number of employees was mainly due to the overseas expansion during the year. There was no significant change in the Group's remuneration policy during the year 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, such as 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 PROSPECTS

Despite Phase One of Economic and Trade Agreement between the U.S. and the PRC had been concluded in January 2020, the World Health Organization (the "**WHO**") had declared the COVID-19 epidemic an international public health emergency in late January 2020 and subsequently a global pandemic in March 2020, now meaning that the WHO considered the disease as a serious global threat. The World Bank has then estimated that around 90% of the economic slowdown from the epidemic will be caused by now people's fear of associating with others, which in turn will lead to the closures of factories, offices and stores and ultimately pose an impact on the national logistic and supply chains. If such slowdown continues throughout the year, the weak consumer demand may adversely impact short to medium-term financial performance of the Group, of which it may not be practical for us to estimate such impact at the moment. As of the date of the announcement, the overall utilisation rate of the production capacity of the Group is still not significantly affected. The extent of damage depends on how long it takes for the virus outbreak to fade out, but the epidemic will certainly be expected to pose a negative hit on the retail market and as a result the general economy across the globe in the short term.

In order to cope with the uncertainties caused by the Sino-US trade friction, Best Pacific will continue to pursue its internationalisation plan and to reinforce its strategy of close collaboration with its overseas garment customers, which are the top players in the relevant industry and the partnership is expected to drive further business potentials and market consolidation, especially amid the current challenging market environment. As at 31 December 2019, the overall designed production capacities of elastic fabric, elastic webbing and lace of the Group were approximately 197.7 million meters, 1,868.2 million meters and 39.7 million meters, respectively. Once all the existing three overseas factories are fully ramped up, we expect our Vietnam facilities to contribute approximately 20% to 25% and 10% to 15% of the Group's overall production capacities for elastic fabric and elastic webbing, respectively. At the same time, our two joint ventures in Sri Lanka shall contribute altogether approximately 20% to 25% and 10% to 15% of the Group's overall production capacities for elastic fabric and elastic webbing, respectively.

Amid the global epidemic crisis and the associated economic turmoil, the Group will keep a close eye on both domestic and international markets. As of the date of the announcement, the reported COVID-19 confirmed cases in China have dramatically reduced as compared to the beginning of the year. The Group intended to seize more business opportunities from the newly established relationships in the PRC market, with an eminent focus on the sportswear and apparel sectors. On the other hand, with the lesson learned from the precedent of Severe Acute Respiratory Syndrome outbreak in 2003, the Group is also looking forward to a strong rebound in market demands and the potential stimulating effects on economy resulting from the counter-cyclical policies imposed by the governments around the world subsequent to the COVID-19 crisis.

In the fourth-quarter of 2019, Phase II development of our Vietnam plant and the construction of BPTL's factory were completed and relevant production had been commenced. However, the Sri Lankan government had publicly announced in late March 2020 to impose various measures and restrictions on corporates so as to curb the COVID-19 outbreak in the country. A prolonged epidemic around the world in the future may lead to the underutilisation of the Group's production capacity. While foreseeing there are many uncertainties in the market for the coming year, Best Pacific is set to reduce its capital expenditure to the optimal and prioritise the ramp up of all new overseas production capacities as much as possible. Execution of costs controls and efficiency enhancement during the abnormal market time is paramount important and such strategies is also expected to benefit the Group in terms of improving margins when the normal market conditions resume in the long run.

The Group has also been committed to operating in compliance with applicable environmental laws and regulations and has taken steps to ensure that any waste and by-products produced as a result of its operations are properly treated and discharged so as to minimise the adverse effects to the environment. With the ISO14001:2004 certification issued by SGS United Kingdom Ltd., we are regarded to have exercised quality environmental and energy management throughout the manufacturing process. At present, the Group has its onsite sewage treatment plants that treat sewage generated from its production process, in particular, dyeing and printing processes, by chemical and biological treatments. The environmental protection department has also set up monitoring equipment at the Group's sewage treatment plants to ensure the processed sewage meets the prescribed standard before discharge. We will also continue to closely monitor the resources consumed and the levels of gas emissions and waste disposal and will take appropriate measures with a view to minimising the impact of the Group's operations to the environment.

Complemented by our well-established competitive strengths, our drive to stay ahead of the curve of the rapid expansion and changing market environments, Best Pacific strongly believes that only market leaders will continue to grow their market share, which in turn will underpin Best Pacific's long-term sustainability and ensure its ability to deliver value for its shareholders.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 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 management the consolidated financial statements of the Group for the year ended 31 December 2019, including accounting principles and practices adopted by the Group, and discussed the relevant financial reporting matters.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

DIVIDEND POLICY AND FINAL DIVIDEND

The Board intends to maintain a long term, stable dividend payout ratio of not less than 20% of the Group's distributable profit for the year, providing shareholders with an equitable return.

The Board has resolved to declare a final dividend of HK5.8 cents per ordinary share in respect of the year ended 31 December 2019 (the "**Final Dividend**") (for the year ended 31 December 2018: HK6.7 cents). The Final Dividend is expected to be paid on or about 31 July 2020 to shareholders whose names appear on the register of members of the Company on 9 June 2020, subject to the approval by the shareholders at the forthcoming annual general meeting of the Company on 29 May 2020 (the "**AGM**").

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).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 26 May 2020 to 29 May 2020, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to determine the identity of shareholders who are entitled to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged not later than 4:30 p.m. on 25 May 2020 with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Subject to the approval of shareholders at the forthcoming AGM, the proposed Final Dividend will be payable to shareholders whose names appear on the register of members of the Company on 9 June 2020 and the register of members of the Company will be closed from 5 June 2020 to 9 June 2020, both days inclusive, during which no transfer of shares of the Company will be registered. In order to qualify for the proposed Final Dividend, all share transfer documents accompanied by the relevant share certificates shall be lodged not later than 4:30 p.m. on 4 June 2020 with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standard of corporate governance which is essential to the sustainable development and growth of the Company. The Board is of the view that the Company has met all the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange throughout the year ended 31 December 2019.

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 and executive Director

Hong Kong, 25 March 2020

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*