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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 2020

HIGHLIGHTS

- The Group's revenue for the six months ended 30 June 2020 amounted to approximately HK\$1,406.6 million, representing a decrease of approximately 12.2% when compared to the six months ended 30 June 2019.

Sales revenue of sportswear and apparel fabric materials recorded a period-on-period growth of approximately 13.6%.

- The Group's gross profit for the six months ended 30 June 2020 amounted to approximately HK\$341.6 million, representing a decrease of approximately 12.9% when compared to the six months ended 30 June 2019. Gross profit margin decreased by approximately 0.2 percentage point to approximately 24.3%, as compared to the six months ended 30 June 2019.
- Profit attributable to owners of the Company amounted to approximately HK\$85.4 million, representing a decrease of approximately 29.4% as compared to the six months ended 30 June 2019.
- Basic earnings per share was approximately HK8.21 cents for the six months ended 30 June 2020, representing a decrease of approximately 29.4% from approximately HK11.63 cents for the six months ended 30 June 2019.
- The Board has resolved not to declare any interim dividend for the six months ended 30 June 2020 (for the six months ended 30 June 2019: 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 2020 (the “**Reporting Period**”), together with the comparative figures for the six months ended 30 June 2019, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020 (unaudited)

| | | Six months ended | |
|--|--------------|-------------------------|-------------|
| | <i>Notes</i> | 30.6.2020 | 30.6.2019 |
| | | HK\$'000 | HK\$'000 |
| | | (unaudited) | (unaudited) |
| Revenue | 4 | 1,406,651 | 1,602,849 |
| Cost of sales | | (1,065,044) | (1,210,855) |
| Gross profit | | 341,607 | 391,994 |
| Other income | | 13,165 | 12,408 |
| Other gains and losses | | (616) | 4,144 |
| Net remeasurement of credit loss allowance for trade receivables | 10 | (12,895) | (3,745) |
| Selling and distribution expenses | | (69,568) | (80,428) |
| Administrative expenses | | (108,754) | (103,178) |
| Research and development costs | | (34,871) | (49,228) |
| Share of result of a joint venture | | 508 | 1,189 |
| Finance costs | | (41,551) | (43,212) |
| Profit before taxation | 5 | 87,025 | 129,944 |
| Income tax expense | 6 | (9,844) | (8,753) |
| Profit for the period | | 77,181 | 121,191 |
| Profit (loss) for the period attributable to | | | |
| – Owners of the Company | | 85,406 | 120,924 |
| – Non-controlling interests | | (8,225) | 267 |
| | | 77,181 | 121,191 |
| Earnings per share | 8 | | |
| Basic (HK cents) | | 8.21 | 11.63 |
| Diluted (HK cents) | | N/A | 11.63 |

| | Six months ended | |
|--|-------------------------|-----------------|
| | 30.6.2020 | 30.6.2019 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Profit for the period | <u>77,181</u> | <u>121,191</u> |
| Other comprehensive (expense) income | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | |
| Exchange differences arising on translation of foreign operations | (59,904) | (23,112) |
| Share of translation reserve of a joint venture | 541 | (89) |
| <i>Item that will not be reclassified to profit or loss:</i> | | |
| Fair value gain on investment in a partnership | <u>–</u> | <u>984</u> |
| Other comprehensive expense for the period | <u>(59,363)</u> | <u>(22,217)</u> |
| Total comprehensive income for the period | <u>17,818</u> | <u>98,974</u> |
| Total comprehensive income (expense) for the period attributable to | | |
| – Owners of the Company | 26,043 | 98,707 |
| – Non-controlling interests | <u>(8,225)</u> | <u>267</u> |
| | <u>17,818</u> | <u>98,974</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2020 (unaudited)

| | <i>Notes</i> | 30.6.2020 HK\$'000 (unaudited) | 31.12.2019 HK\$'000 (audited) |
|--|--------------|---|-------------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | <i>9</i> | 2,881,126 | 2,893,902 |
| Right-of-use assets | <i>9</i> | 274,824 | 246,804 |
| Interest in a joint venture | | 32,457 | 31,408 |
| Deposits | | 18,928 | 87,881 |
| Deferred tax assets | | 15,216 | 8,824 |
| | | 3,222,551 | 3,268,819 |
| Current assets | | | |
| Inventories | | 908,993 | 1,065,160 |
| Trade and bills receivables | <i>10</i> | 541,007 | 754,490 |
| Other receivables, deposits and prepayments | | 61,108 | 86,777 |
| Tax recoverables | | 16,656 | 17,375 |
| Pledged bank deposits | | 26,250 | 76,823 |
| Short term bank deposits | | 1,261 | 19,010 |
| Bank balances and cash | | 783,171 | 576,773 |
| | | 2,338,446 | 2,596,408 |
| Current liabilities | | | |
| Trade payables | <i>11</i> | 212,655 | 246,337 |
| Bills payables | <i>11</i> | 103,654 | 386,546 |
| Other payables and accrued charges | | 218,294 | 237,261 |
| Dividend payables | | 60,309 | – |
| Lease liabilities | | 14,245 | 10,474 |
| Contract liabilities | | 25,904 | 40,964 |
| Bank borrowings | <i>12</i> | 1,424,736 | 1,612,894 |
| Tax payables | | 806 | 22,713 |
| Bank overdrafts | <i>12</i> | – | 32,225 |
| Derivative financial instrument | | 1,403 | – |
| | | 2,062,006 | 2,589,414 |
| Net current assets | | 276,440 | 6,994 |
| Total assets less current liabilities | | 3,498,991 | 3,275,813 |

| | <i>Note</i> | 30.6.2020 HK\$'000 (unaudited) | 31.12.2019 HK\$'000 (audited) |
|---|-------------|---|-------------------------------------|
| Non-current liabilities | | | |
| Bank and other borrowings | <i>12</i> | 806,917 | 574,201 |
| Lease liabilities | | 82,481 | 62,926 |
| Deferred income | | 7,586 | 3,860 |
| Deferred tax liabilities | | 8,894 | 11,423 |
| Retirement benefit obligations | | 7,446 | 6,922 |
| Derivative financial instrument | | – | 1,403 |
| Other liabilities | | 3,525 | – |
| | | <u>916,849</u> | <u>660,735</u> |
| Net assets | | <u>2,582,142</u> | <u>2,615,078</u> |
| Capital and reserves | | | |
| Share capital | | 10,398 | 10,398 |
| Reserves | | 2,487,231 | 2,521,497 |
| | | <u>2,497,629</u> | <u>2,531,895</u> |
| Equity attributable to owners of the Company | | <u>2,497,629</u> | <u>2,531,895</u> |
| Non-controlling interests | | <u>84,513</u> | <u>83,183</u> |
| | | <u>2,582,142</u> | <u>2,615,078</u> |
| Total equity | | <u>2,582,142</u> | <u>2,615,078</u> |

NOTES

For the six months ended 30 June 2020

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.

Significant events in the current interim period

The outbreak of the 2019 novel coronavirus disease ("COVID-19") and the various public health measures put in place in many countries to curb the spread of the disease, causing temporary disruption to the Group's production at its different production bases at different times during the six months ended 30 June 2020. The operations restructuring of some key lingerie and sportswear and apparel retailers and the lockdowns and restrictions on public life in many cities around the world have resulted in temporary and permanent closure of stores by various retailers, which in turn have caused delays in shipment and/or cancellation of sales orders of the Group by some of its customers.

As such, the financial performance of the Group was affected in different aspects, including a reduction in revenue and net profit and an increase in the expected credit losses provided on trade receivables balances during the current period.

2. BASIS OF PREPARATION

The condensed consolidated financial statements of the Group for the six months ended 30 June 2020 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

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, as appropriate.

Other than additional accounting policies resulting from application of 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 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

| | |
|--|--------------------------------|
| Amendments to HKAS 1 and HKAS 8 | Definition of Material |
| Amendments to HKFRS 3 | Definition of a Business |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform |

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards 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 of application on Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”. The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

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 People's Republic of China (the "PRC"), the Socialist Republic of Vietnam ("Vietnam") and the Democratic Socialist Republic of Sri Lanka ("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 2020 (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 | 425,834 | – | 425,834 |
| – Sportswear and apparel | 638,677 | – | 638,677 |
| | 1,064,511 | – | 1,064,511 |
| Lace | 42,641 | – | 42,641 |
| Elastic webbing | – | 299,499 | 299,499 |
| | 1,107,152 | 299,499 | 1,406,651 |
| | 1,107,152 | 299,499 | 1,406,651 |

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 |
| | 1,186,144 | 416,705 | 1,602,849 |

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 six months ended 30 June 2020 (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 | 1,107,152 | 299,499 | 1,406,651 |
| Segment profits | 94,198 | 38,510 | 132,708 |
| Unallocated other income | | | 5,665 |
| Unallocated other gains and losses | | | (1,032) |
| Unallocated corporate expenses | | | (9,273) |
| Share of result of a joint venture | | | 508 |
| Finance costs | | | (41,551) |
| Profit before taxation | | | 87,025 |

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 | <u>1,186,144</u> | <u>416,705</u> | <u>1,602,849</u> |
| Segment profits | <u>85,643</u> | <u>93,808</u> | 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 | | | <u>(43,212)</u> |
| Profit before taxation | | | <u>129,944</u> |

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 any allocation of corporate items including mainly bank interest income, change in fair value of a derivative financial instrument, net foreign exchange (loss) gain, 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 2020 (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 | 4,029,270 | 648,208 | 4,677,478 |
| Property, plant and equipment | | | 151 |
| Interest in a joint venture | | | 32,457 |
| Deferred tax assets | | | 15,216 |
| Other receivables, deposits and prepayments | | | 8,357 |
| Tax recoverables | | | 16,656 |
| Pledged bank deposits | | | 26,250 |
| Short term bank deposits | | | 1,261 |
| Bank balances and cash | | | 783,171 |
| Total assets | | | 5,560,997 |
| LIABILITIES | | | |
| Segment liabilities | 502,506 | 159,567 | 662,073 |
| Bank and other borrowings | | | 2,231,653 |
| Other payables and accrued charges | | | 13,717 |
| Dividend payables | | | 60,309 |
| Tax payables | | | 806 |
| Derivative financial instrument | | | 1,403 |
| Deferred tax liabilities | | | 8,894 |
| Total liabilities | | | 2,978,855 |

As at 31 December 2019 (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 | <u>4,348,295</u> | <u>718,831</u> | 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 | | | <u>576,773</u> |
| Total assets | | | <u>5,865,227</u> |
| LIABILITIES | | | |
| Segment liabilities | <u>802,530</u> | <u>182,435</u> | 984,965 |
| Bank and other borrowings | | | 2,187,095 |
| Other payables and accrued charges | | | 10,325 |
| Bank overdrafts | | | 32,225 |
| Tax payables | | | 22,713 |
| Derivative financial instrument | | | 1,403 |
| Deferred tax liabilities | | | <u>11,423</u> |
| Total liabilities | | | <u>3,250,149</u> |

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, interest in a joint venture, deferred tax assets, tax recoverables, pledged bank deposits, short term bank deposits, 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, dividend payables, tax payables, derivative financial instrument, deferred tax liabilities and certain corporate liabilities.

5. PROFIT BEFORE TAXATION

| | Six months ended | |
|---|-------------------------|-----------------------|
| | 30.6.2020 | 30.6.2019 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Profit before taxation has been arrived at after charging (crediting): | | |
| Depreciation of property, plant and equipment | 149,209 | 118,620 |
| Depreciation of right-of-use assets | 12,193 | 8,387 |
| Cost of inventories recognised as an expense | 1,065,044 | 1,210,855 |
| Including: allowance for obsolete inventories recognised | 1,437 | 10,121 |
| Net proceeds from sales of scrap materials (included in other income) | (2,868) | (4,113) |
| Bank interest income (included in other income) | (4,055) | (2,881) |
| Government grants (included in other income) | (2,886) | (1,276) |
| Gain from change in fair value of a derivative financial instrument (included in other gains and losses) | – | (1,180) |
| Net foreign exchange loss (gain) (included in other gains and losses) | 1,032 | (5,191) |
| | <u>1,032</u> | <u>(5,191)</u> |

6. INCOME TAX EXPENSE

| | Six months ended | |
|--|-------------------------|----------------------|
| | 30.6.2020 | 30.6.2019 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Current tax: | | |
| Hong Kong Profits Tax | 792 | 2,947 |
| The PRC Enterprise Income Tax (“EIT”) | 13,590 | 16,908 |
| Withholding tax on dividends from subsidiaries | 5,790 | – |
| Over provision in prior years: | | |
| Hong Kong Profits Tax | (1,315) | – |
| The PRC EIT | – | (9,505) |
| | <u>18,857</u> | <u>10,350</u> |
| Deferred taxation | (9,013) | (1,597) |
| | <u>9,844</u> | <u>8,753</u> |

Under the two-tiered profits tax rates regime passed by the Hong Kong Legislative Council in March 2018, 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 is 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 2019 and 2020, 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 had been renewed for an additional three years from the financial year ended 31 December 2019. 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 2019 and 2020 has been 15%.

Withholding tax on dividends is calculated at 5% of the dividend received from the subsidiaries estimated in the PRC during the year.

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 new incentive in place during the year ended 31 December 2018 and by fulfilling certain stated requirements as set by the Ministry of Industry and Trade, 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 as 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 and 2020. 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 HK5.8 cents per ordinary share in respect of the year ended 31 December 2019 (2019: HK6.7 cents per ordinary share in respect of the year ended 31 December 2018) was declared to the shareholders of the Company. The aggregate amount of final dividend amounted to HK\$60,309,000 (2019: HK\$69,667,000).

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 2020.

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 | |
|--|-------------------------|----------------------|
| | 30.6.2020 | 30.6.2019 |
| | (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) | 85,406 | 120,924 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 1,039,808,000 | 1,039,761,039 |
| Effect of dilutive potential ordinary shares: Share options issued by the Company | <u>N/A</u> | <u>48,827</u> |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | <u>N/A</u> | <u>1,039,809,866</u> |

No diluted earnings per share for the six months ended 30 June 2020 was presented as there was no potential ordinary shares in issue for the six months ended 30 June 2020.

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

During the six months ended 30 June 2020, total addition to property, plant and equipment were approximately HK\$132,925,000 (for the six months ended 30 June 2019: approximately HK\$188,289,000), which mainly included addition to construction in progress of approximately HK\$120,449,000 (for the six months ended 30 June 2019: approximately HK\$129,161,000) and addition of machinery of approximately HK\$7,188,000 (for the six months ended 30 June 2019: approximately HK\$50,028,000).

During the six months ended 30 June 2020, the Group entered into several new lease agreements with lease terms ranged from three to six years. On lease commencement, the Group recognised lease liabilities of approximately HK\$31,769,000 (for the six months ended 30 June 2019: approximately HK\$2,382,000) and total addition to right-of-use assets were approximately HK\$42,626,000 (for the six months ended 30 June 2019: approximately HK\$63,200,000), which mainly included addition of HK\$15,130,000 in relation to a new lease agreement entered by the Group for the leasing of an office premise in Hong Kong, HK\$16,638,000 in relation to various new lease agreements entered by the Group for leasing of office premises, warehouse and staff quarter in the PRC and HK\$7,332,000 in relation to two new lease agreements entered by the Group for the use of land in Vietnam for 38 years (for the six months ended 30 June 2019: approximately HK\$60,818,000 in relation to a new lease entered by the Group for the use of a piece of land in the PRC for 42 years). On lease commencement for the use of these lands, the Group is required to make full payments and the Group recognised approximately HK\$7,332,000 (for the six months ended 30 June 2019: approximately HK\$60,818,000) of right-of-use asset for such lease during the six months ended 30 June 2020.

10. TRADE AND BILLS RECEIVABLES

| | 30.06.2020 HK\$'000 (unaudited) | 31.12.2019 HK\$'000 (audited) |
|-----------------------------------|--|-------------------------------------|
| Trade receivables | 560,865 | 746,950 |
| Less: Allowance for credit losses | (39,797) | (26,902) |
| | <hr/> | <hr/> |
| Total trade receivables | 521,068 | 720,048 |
| Bill receivables | 19,939 | 34,442 |
| | <hr/> | <hr/> |
| Total trade and bill receivables | 541,007 | 754,490 |
| | <hr/> <hr/> | <hr/> <hr/> |

Trade receivables from third parties mainly represent receivables from customers in relation to the sale 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:

| | 30.6.2020 HK\$'000 (unaudited) | 31.12.2019 HK\$'000 (audited) |
|--------------------------|---|-------------------------------------|
| Trade receivables | | |
| 0 – 90 days | 411,631 | 644,579 |
| 91 – 180 days | 81,722 | 49,948 |
| Over 180 days | 27,715 | 25,521 |
| | <hr/> | <hr/> |
| | 521,068 | 720,048 |
| | <hr/> | <hr/> |
| Bills receivables | | |
| 0 – 90 days | 18,933 | 34,442 |
| 91 – 180 days | 1,006 | – |
| | <hr/> | <hr/> |
| | 19,939 | 34,442 |
| | <hr/> | <hr/> |
| | 541,007 | 754,490 |
| | <hr/> <hr/> | <hr/> <hr/> |

The following is the movement in the allowance for impairment in respect of trade receivables during the six months ended 30 June 2020:

| | HK\$'000 |
|--|-----------------|
| Balance at 1 January 2020 (audited) | 26,902 |
| Net remeasurement of credit loss allowance | 12,895 |
| | <hr/> |
| Balance at 30 June 2020 (unaudited) | 39,797 |
| | <hr/> <hr/> |

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

| | 30.6.2020 HK\$'000 (unaudited) | 31.12.2019 HK\$'000 (audited) |
|--------------------------|---|-------------------------------------|
| Related companies | | |
| A related company* | 11,483 | 18,745 |
| Other related companies# | 50,955 | 43,113 |
| | 62,438 | 61,858 |

* A related company controlled by close family members of directors of the Company (these directors are key management personnel of the Company).

The other related companies are fellow subsidiaries of the 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 ageing 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.

| | 30.6.2020 HK\$'000 (unaudited) | 31.12.2019 HK\$'000 (audited) |
|--------------|---|-------------------------------------|
| 0 – 90 days | 58,301 | 61,858 |
| Over 90 days | 4,137 | – |
| | 62,438 | 61,858 |

11. 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:

| | 30.6.2020 HK\$'000 (unaudited) | 31.12.2019 HK\$'000 (audited) |
|--------------|---|-------------------------------------|
| 0 – 90 days | 152,070 | 230,488 |
| Over 90 days | 60,585 | 15,849 |
| | 212,655 | 246,337 |

As at 30 June 2020, included in the Group's trade payables balance is an amount due to a joint venture of HK\$15,097,000 (as at 31 December 2019: HK\$13,480,000). 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 ageing analysis of bills payables presented based on the date of issuance of bills at the end of each reporting period:

| | 30.6.2020 HK\$'000 (unaudited) | 31.12.2019 HK\$'000 (audited) |
|---------------|---|-------------------------------------|
| 0 – 90 days | 26,488 | 266,328 |
| 91 – 180 days | 77,166 | 120,218 |
| | 103,654 | 386,546 |

12. BANK AND OTHER BORROWINGS/BANK OVERDRAFTS

| | 30.6.2020 HK\$'000 (unaudited) | 31.12.2019 HK\$'000 (audited) |
|--|---|-------------------------------------|
| Bank overdrafts | – | 32,225 |
| Unsecured syndicated loan | 766,996 | 949,401 |
| Unsecured bank borrowings | 1,436,090 | 1,218,194 |
| Unsecured other borrowing (<i>Note</i>) | 28,567 | 19,500 |
| | 2,231,653 | 2,219,320 |
| Carrying amount repayable* | | |
| Within one year | 1,202,228 | 1,435,920 |
| More than one year, but not exceeding two years | 245,845 | 441,047 |
| More than two years, but not more than five years | 783,580 | 342,353 |
| | 2,231,653 | 2,219,320 |
| Less: Amounts due within one year or contain a repayment on demand clause shown under current liabilities | (1,424,736) | (1,645,119) |
| Amounts shown under non-current liabilities | 806,917 | 574,201 |
| Carrying amount of bank borrowings that are repayable within one year and contain a repayment on demand clause | 1,171,139 | 1,036,928 |
| Carrying amount of bank borrowings that are repayable more than one year but contain a repayment on demand clause | 222,508 | 209,199 |
| | 1,393,647 | 1,246,127 |

* 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 (as at 31 December 2019: repayable in December 2021). Such other borrowing is denominated in United States Dollar (“US\$”).

During the period ended 30 June 2020, the Group entered into a new facility agreement for an unsecured syndicated loan, which is to be repayable by installments, from 31 December 2021 to 31 December 2023 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 (as at 31 December 2019: unsecured bank borrowings and bank overdrafts) was guaranteed by the Company and/or certain of its subsidiaries as at 30 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The first six months of 2020 were extremely challenging for all businesses around the world. In late January 2020, the World Health Organization had declared the COVID-19 epidemic an international public health emergency, and subsequently a global pandemic in March 2020. Coupled with the ongoing political and trade tensions between the PRC and the United States of America (the “U.S.”), the mixed uncertainties had caused general businesses to refrain from making investment decisions and individuals to control their spending, posting an unfavourable impact on the global consumer markets and inevitably an adverse impact on our financial performance for the six months ended 30 June 2020.

With the invasion of COVID-19 around the world, most countries, including the PRC, Vietnam and Sri Lanka, had adopted various emergency public health measures. Nevertheless, the rapid global spread of the disease during the first half of 2020 had severely disrupted both economic and social activities in many countries. The implementation of the various health measures to contain the pandemic had affected the Group’s production at different points in time during the first half of 2020.

Apart from the disturbance in production and resumption of normal operation at the manufacturing sector, the retail, trade and tourism sectors had all been hard hit by COVID-19 and the overall unemployment is rising around the world. Certain lingerie and sportswear and apparel retailers had also announced their operations restructuring plan in the first half of 2020. All of these had negatively impacted our overall sales for the first half of 2020.

In response to the above-mentioned uncertainties, the Group had considered its functions and areas including human resources, administrative and production efficiencies, and executed various measures effectively in order to save costs during this difficult time.

On the other hand, our farsighted internationalisation plan had given the Group the flexibility in adjusting our operations to cope with the adverse impacts from COVID-19. Sales orders had then been strategically processed at the specific manufacturing sites in the PRC, Vietnam and Sri Lanka. We aimed to cater for the best interests of our customers, which included reduction in production lead time, enhancement of production efficiencies as well as other trade and tariff considerations.

Nevertheless, the general public seems to have started to learn to live with the virus and the retail stores of most lingerie and sportswear and apparel brands had reopened since the end of the second quarter of 2020. Recent statistics have indicated signs of economic recovery in the PRC and central governments around the world have been taking a proactive fiscal policy approach to promote economic growth. These all have contributed to the rebound of our sales orders since the end of the second quarter of 2020. In this exceptionally difficult time, the Group had also successfully secured a new syndicated loan amounting to HK\$1.8 billion in June 2020, which had contributed to the financial and risk management of the Group.

FINANCIAL PERFORMANCE

During the Reporting Period, COVID-19 and other uncertainties had resulted in disruptions to industrial, commercial and social activities, thereby reducing consumer spending appetite. The Group recorded a decline in its overall revenue of approximately 12.2% to approximately HK\$1,406.6 million, as compared to approximately HK\$1,602.8 million in the corresponding period of 2019.

During the Reporting Period, our revenue from sales of elastic fabric decreased by approximately 6.9% to approximately HK\$1,064.5 million, and the revenue from sales of elastic webbing and sales of lace decreased by approximately 28.1% and 1.6%, to approximately HK\$299.5 million and HK\$42.6 million, respectively.

The Group's gross profit for the Reporting Period amounted to approximately HK\$341.6 million, representing a decrease of approximately 12.9% as compared to the six months ended 30 June 2019. The Group's gross profit margin decreased slightly by approximately 0.2 percentage point to approximately 24.3%, as compared to the six months ended 30 June 2019. On the other hand, due to the diseconomies of scale, the Group recorded a net profit margin of approximately 5.5% for the Reporting Period, representing a decrease of approximately 2.1 percentage points as compared to the six months ended 30 June 2019.

The profit attributable to owners of the Company amounted to approximately HK\$85.4 million for the Reporting Period, representing a decrease of approximately 29.4% as compared to the six months ended 30 June 2019.

During the Reporting Period, the decrease in orders received from customers had dragged down the overall utilisation of our production capacities as well as the respective economies of scale. Nevertheless, the Group had taken a proactive approach in controlling costs. The lower raw materials purchase cost had also helped ease some pressure on the Group's profitability.

Basic earnings per share was approximately HK8.21 cents for the Reporting Period, representing a decrease of approximately 29.4% from approximately HK11.63 cents for the six months ended 30 June 2019.

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 2020, revenue amounted to approximately HK\$1,406.6 million, representing a decrease of approximately HK\$196.2 million, or approximately 12.2%, from approximately HK\$1,602.8 million for the six months ended 30 June 2019. The decrease in overall revenue during the Reporting Period was mainly attributable to the decrease in the volume of products sold, as a result of less orders from customers during the pandemic time of COVID-19.

A comparison of the Group's revenue for the six months ended 30 June 2020 and the six months ended 30 June 2019 by product categories is as follows:

| | Six months ended 30 June | | | | Change | |
|-----------------|--------------------------|---------------------|-------------------------|---------------------|-------------------------|----------------------|
| | 2020 | | 2019 | | (HK\$'000) | % |
| | Revenue (HK\$'000) | % of Revenue | Revenue (HK\$'000) | % of Revenue | (HK\$'000) | % |
| Elastic fabric | 1,064,511 | 75.7 | 1,142,818 | 71.3 | (78,307) | (6.9) |
| Elastic webbing | 299,499 | 21.3 | 416,705 | 26.0 | (117,206) | (28.1) |
| Lace | 42,641 | 3.0 | 43,326 | 2.7 | (685) | (1.6) |
| Total | <u>1,406,651</u> | <u>100.0</u> | <u>1,602,849</u> | <u>100.0</u> | <u>(196,198)</u> | <u>(12.2)</u> |

For the six months ended 30 June 2020, revenue from the sales of elastic fabric amounted to approximately HK\$1,064.5 million, representing a decrease of approximately HK\$78.3 million, or approximately 6.9%, as compared to the six months ended 30 June 2019. Leveraging on the Group's high product quality, strong innovation and research and development capabilities, the Group had successfully entered into certain core programmes with some new partnering brands in the sportswear and apparel segment. Despite the adverse impacts as brought by COVID-19, the Group had recorded a period-on-period growth of approximately 13.6% in sales revenue of sportswear and apparel fabric materials. On the other hand, the Group had recorded a period-on-period decline of approximately 26.7% in sales revenue of lingerie fabric materials, which was mainly due to the general stagnant consumer markets as impacted by COVID-19 and the forced operations restructuring of some key lingerie retailers during the Reporting Period.

Revenue from the sales of elastic webbing amounted to approximately HK\$299.5 million during the Reporting Period, representing a decrease of approximately HK\$117.2 million, or approximately 28.1%, as compared to the six months ended 30 June 2019. The relatively weak lingerie and apparel markets during the Reporting Period has resulted in a decrease in the volume sold, as compared to the corresponding period in 2019.

Revenue from the sales of lace decreased from approximately HK\$43.3 million for the six months ended 30 June 2019 to approximately HK\$42.6 million for the six months ended 30 June 2020, representing a slight decrease of approximately 1.6%. Despite the negative impact from COVID-19, the Group has achieved an encouraging result in its lace segment by further penetrating the market and winning new orders from both existing and new customers.

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 | | Change | |
|-------------------------|--------------------------|--------------|------------------|--------------|------------------|---------------|
| | 2020 | | 2019 | | | |
| | (HK\$'000) | % | (HK\$'000) | % | (HK\$'000) | % |
| Raw materials | 522,780 | 49.1 | 635,472 | 52.5 | (112,692) | (17.7) |
| Manufacturing overheads | 412,249 | 38.7 | 446,804 | 36.9 | (34,555) | (7.7) |
| Direct labour | 120,789 | 11.3 | 119,158 | 9.8 | 1,631 | 1.4 |
| Others | 9,226 | 0.9 | 9,421 | 0.8 | (195) | (2.1) |
| Total | 1,065,044 | 100.0 | 1,210,855 | 100.0 | (145,811) | (12.0) |

The Group's cost of sales for the six months ended 30 June 2020 amounted to approximately HK\$1,065.0 million, representing a decrease of approximately HK\$145.8 million or 12.0%, as compared to the six months ended 30 June 2019. The decrease in the cost of sales was primarily due to (i) the decrease in overall sales volume and (ii) the decrease in major raw materials purchase cost as a result of the drop in crude oil price during the Reporting Period.

As a response to the pandemic, the Group had adopted various cost-saving measures so as to curb with the adverse impact brought by COVID-19. However, the continuous expansion of the Group in recent few years had added burden on various manufacturing costs and the overall capacity was underutilised due to the decline in consumer demands during the Reporting Period.

Cost of sales – by product category

| | Six months ended 30 June | | 2019 | | Change | |
|-----------------|--------------------------|--------------|------------------|--------------|------------------|---------------|
| | 2020 | | 2019 | | | |
| | (HK\$'000) | % | (HK\$'000) | % | (HK\$'000) | % |
| Elastic fabric | 826,254 | 77.6 | 897,478 | 74.1 | (71,224) | (7.9) |
| Elastic webbing | 214,018 | 20.1 | 291,021 | 24.0 | (77,003) | (26.5) |
| Lace | 24,772 | 2.3 | 22,356 | 1.9 | 2,416 | 10.8 |
| Total | 1,065,044 | 100.0 | 1,210,855 | 100.0 | (145,811) | (12.0) |

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 | | | |
|-----------------|----------------------------|-----------------------------|----------------------------|-----------------------------|
| | 2020 | | 2019 | |
| | Gross profit (HK\$'000) | Gross profit margin % | Gross profit (HK\$'000) | Gross profit margin % |
| Elastic fabric | 238,257 | 22.4 | 245,340 | 21.5 |
| Elastic webbing | 85,481 | 28.5 | 125,684 | 30.2 |
| Lace | 17,869 | 41.9 | 20,970 | 48.4 |
| | <u>341,607</u> | 24.3 | <u>391,994</u> | 24.5 |

The overall gross profit decreased from approximately HK\$392.0 million for the six months ended 30 June 2019 to approximately HK\$341.6 million for the six months ended 30 June 2020. Despite the disruptions brought by COVID-19, the Group had maintained an overall stable gross profit margin. In particular, the gross profit margin of elastic fabric business for the Reporting Period had increased by approximately 0.9 percentage point to approximately 22.4%, as compared to the six months ended 30 June 2019.

Net profit for the six months ended 30 June 2020 of the Group amounted to approximately HK\$77.2 million, representing a decrease of approximately 36.3% as compared to approximately HK\$121.2 million for the six months ended 30 June 2019. The Group recorded a reduced net profit margin of approximately 5.5% for the six months ended 30 June 2020 as compared to approximately 7.6% for the six months ended 30 June 2019. The overall decrease in the volume of products sold, the increase in net remeasurement of credit loss allowance for trade receivables; and the ramping up of our overseas production plants have dragged the overall profitability of the Group to a certain extent.

Other income

The Group's other income mainly consisted of bank interest income, net proceeds from sales of scrap materials, 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 | |
|--|--------------------------|--------------------|
| | 2020 (HK\$'000) | 2019 (HK\$'000) |
| Bank interest income | 4,055 | 2,881 |
| Net proceeds from sales of scrap materials | 2,936 | 4,113 |
| Government grants | 2,886 | 1,276 |
| Others | 3,288 | 4,138 |
| Total | 13,165 | 12,408 |

The increase in other income by approximately 6.1%, from approximately HK\$12.4 million for the six months ended 30 June 2019 to approximately HK\$13.2 million for the six months ended 30 June 2020, was mainly driven by the increase in bank interest income and government grants received during the Reporting Period.

Other gains and losses

Other gains and losses mainly consisted of net foreign exchange (loss) gain, customer claims, gain from change in fair value of a derivative financial instrument and others. The following table sets forth the breakdown of the Group's other gains and losses for the periods indicated:

| | Six months ended 30 June | |
|--|--------------------------|--------------------|
| | 2020 (HK\$'000) | 2019 (HK\$'000) |
| Net foreign exchange (loss) gain | (1,032) | 5,191 |
| Customer claims | (311) | (1,767) |
| Gain from change in fair value of a derivative financial instrument | – | 1,180 |
| Others | 727 | (460) |
| Total | (616) | 4,144 |

Net remeasurement of credit loss allowance for trade receivables

Net remeasurement of credit loss allowance for trade receivables represented the result of impairment assessment under expected credit loss model on trade receivables. For the six months ended 30 June 2020, the net remeasurement of credit loss allowance for trade receivables amounted to approximately HK\$12.9 million, representing an increase of approximately HK\$9.2 million from approximately HK\$3.7 million for the six months ended 30 June 2019. Such increase was mainly the results of the delay in settlement of payments by our customers as caused by their deteriorating financial position during the outbreak of COVID-19.

Selling and distribution expenses

Selling and distribution expenses primarily consisted of employee benefit expenses, transportation, marketing and promotional expenses and other selling and distribution expenses. For the six months ended 30 June 2019 and 2020, the Group's selling and distribution expenses represented approximately 5.0% and 4.9% of its total revenue, respectively.

Administrative expenses

Administrative expenses primarily consisted of employee benefit expenses, depreciation, motor vehicle expenses, bank charges and other administrative expenses. For the six months ended 30 June 2019 and 2020, the Group's administrative expenses represented approximately 6.4% and 7.7% of its total revenue, respectively. The increase in ratio of administrative expense against total revenue was mainly due to the diseconomies of scale during the Reporting Period.

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 2019 and 2020, our research and development costs represented approximately 3.1% and 2.5% of the revenue of the Group, respectively. The decrease in research and development costs was mainly due to the integration of research and development projects and other new cost-saving measures launched during the Reporting Period.

Finance costs

The Group's finance costs mainly represented interest expenses for bank and other borrowings and lease liabilities. The finance costs decreased by approximately 3.8% from approximately HK\$43.2 million for the six months ended 30 June 2019 to approximately HK\$41.6 million for the six months ended 30 June 2020. The decrease in finance costs during the Reporting Period was primarily due to the decrease in overall market interest rate.

Income tax expense

Under the two-tiered profits tax rates regime passed by the Hong Kong Legislative Council in March 2018, 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 is 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 2019 and 2020, 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 had been renewed for an additional three years from the financial year ended 31 December 2019. 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 2019 and 2020 has been 15%.

Withholding tax on dividends is calculated at 5% of the dividend received from the subsidiaries estimated in the PRC during the year.

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 new incentive in place during the year ended 31 December 2018 and by fulfilling certain stated requirements as set by the Ministry of Industry and Trade, 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 as 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 and 2020. 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 11.3% and 6.7% for the six months ended 30 June 2020 and 2019, respectively. The increase in the effective tax rate was mainly due to the over provision in the PRC Enterprise Income Tax in prior years being reversed in the six months ended 30 June 2019 and that our operations in Sri Lanka recorded loss in the Reporting Period due to the local government's lockdown policy to prevent further spreading of COVID-19 from March to May 2020.

Liquidity, financial resources and bank borrowings

As at 30 June 2020, net working capital (calculated as current assets less current liabilities) was approximately HK\$276.4 million, representing an increase of approximately HK\$269.4 million as compared to approximately HK\$7.0 million as at 31 December 2019. The current ratio (calculated as current assets/current liabilities) is 1.1 times as at 30 June 2020, as compared to 1.0 time as at 31 December 2019.

For the six months ended 30 June 2020, net cash generated from operating activities was approximately HK\$287.4 million, as compared to approximately HK\$177.9 million for the six months ended 30 June 2019, which was mainly due to better working capital management, as well as the new cost-saving measures launched and the results achieved.

Net cash used in investing activities amounted to approximately HK\$13.5 million for the six months ended 30 June 2020, as compared to approximately HK\$199.7 million for the six months ended 30 June 2019. 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 2020.

For the six months ended 30 June 2020, net cash used in financing activities amounted to approximately HK\$29.2 million, as compared to net cash from financing activities amounted to approximately HK\$118.6 million for the six months ended 30 June 2019. The cash used in financing activities for the six months ended 30 June 2020 was mainly for the repayment of syndicated loan and bank borrowings.

As at 30 June 2020, the Group's net gearing ratio was approximately 55.0% (as at 31 December 2019: approximately 59.1%), which was calculated on the basis of the amount of net debt position (sum of total bank and other borrowings and bank overdrafts, less bank deposits and bank balances and cash) as a percentage of total equity. The Group was in a net debt position of approximately HK\$1,421.0 million as at 30 June 2020, as compared to approximately HK\$1,546.7 million as at 31 December 2019.

Working capital management

Caused by COVID-19, certain shipments of finished goods were delayed upon customers' request. There was also temporary delay in settlement of payments by some customers whose businesses were adversely impacted by COVID-19. As a result, the trade and bills receivables turnover days was approximately 83.8 days for the six months ended 30 June 2020, as compared to approximately 74.5 days for the year ended 31 December 2019. The inventory turnover days was approximately 168.7 days for the six months ended 30 June 2020, as compared to approximately 127.4 days for the year ended 31 December 2019. On the other hand, the trade and bills payables turnover days remained relatively stable at approximately 81.1 days for the six months ended 30 June 2020, as compared to approximately 81.7 days for the year ended 31 December 2019.

Capital expenditures

For the six months ended 30 June 2020, total addition to property, plant and equipment amounted to approximately HK\$132.9 million (for the six months ended 30 June 2019: approximately HK\$188.3 million), which was mainly attributed to the addition to construction in progress of approximately HK\$120.4 million (for the six months ended 30 June 2019: approximately HK\$129.2 million) and the investment in machinery of approximately HK\$7.2 million (for the six months ended 30 June 2019: approximately HK\$50.0 million), in order to cope with the Group's overall business expansion.

Pledge of assets

As at 30 June 2020, the Group pledged bank deposits of approximately HK\$26.3 million (as at 31 December 2019: approximately HK\$76.8 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, Vietnam Dong and Sri Lanka Rupee. 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 and Sri Lanka Rupee through our subsidiaries in Vietnam and Sri Lanka, respectively; 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, Vietnam Dong and Sri Lanka Rupee primarily by our subsidiaries in the PRC, Vietnam and Sri Lanka, respectively.

Contingent liabilities

As at 30 June 2020, the Group did not have any significant contingent liabilities.

Employees and remuneration policies

As at 30 June 2020, the Group employed a total of 6,555 full-time employees (as at 31 December 2019: 7,437). The decrease in the number of employees was mainly due to the outbreak of COVID-19 causing the temporary suspension of the staff recruitment activities of the Group. Subsequently, the Group had resumed normal staff recruitment in June 2020. There has been 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 scheme of the Company from time to time.

FUTURE STRATEGIES AND PROSPECTS

2020 is a year full of challenges for most businesses and industries around the world. Looking ahead, COVID-19, geopolitical and trade tensions, and other uncertainties at home and abroad are expected to bring continuous disruption to the industrial and commercial landscapes at least for a period of time, which in turn may suppress consumer spending and corporate investment willingness. In late July 2020, the government of the U.S reported its advance estimate on the gross domestic product (“GDP”) of the U.S., representing a decrease in the annual rate of approximately 32.9% in the second quarter of 2020, following an approximately 5.0% reduction in the first quarter of 2020. The Euro area also recorded a period-on-period decrease in GDP of approximately 3.1% and 15.0% in the first and second quarters of 2020, respectively. The further decreases in GDP in the second quarter in these countries were the reflection of the inevitable damages brought to the economy by the necessary confinement measures pinpointing the COVID-19 pandemic.

Despite the above market-driven factors, Best Pacific believes that our competitive edge in innovation and diverse geographical manufacturing base will help us capture more market share, especially during this challenging market condition. Best Pacific has laid a solid foundation regarding its international expansion in recent years, which included its investment in Vietnam and the joint ventures in Sri Lanka. We have also walked out from our comfort zone in the lingerie materials market and penetrated the sportswear and apparel materials market, which has provided us with the momentum to keep growing and expanding. As at 30 June 2020, the overall designed production capacities of elastic fabric, elastic webbing and lace of the Group were approximately 216.5 million meters, 1,872.5 million meters and 45.0 million meters, respectively. During the Reporting Period, while the sales of all of our other products recorded decline to a certain extent, our revenue from the sales of elastic fabric materials for sportswear and apparel segment still achieved a promising growth of approximately 13.6%. Once again, it has proved that there is still huge potential in the sportswear and apparel materials market and our international setup allows us to seize the market opportunities more timely and effectively.

On the other hand, the GDP of the PRC, when compared to the same period last year, decreased by approximately 6.8% in the first quarter of 2020, but then dramatically rebounded by approximately 3.2% in the second quarter of 2020. Such a V-shape rebound was led by the resumption of industrial activities in the second quarter of 2020. Besides, the China Manufacturing Purchasing Managers Index for July 2020 had risen to 51.1, which was the fifth consecutive month being over 50.0, suggesting the improvement trend in the PRC manufacturing business since March 2020. Best Pacific intends to divert incremental resources and seize further business opportunities from the newly established relationships in the PRC market, with an eminent focus on the sportswear and apparel segment, in which the health awareness of the general public has been greatly enhanced.

While the Group continues to be vigilant in containing its overall operating costs and proactively managing its credit risks, the recent weakened U.S. dollar and the relatively weak market sentiment in the textile and apparel markets have made the tasks relatively more difficult.

Despite these ongoing challenges, Best Pacific remains confident in the strength of our customer-centric strategy. Our continual product innovation and proactive approach have helped us further develop in the new market segments. No doubt, the whole textile and garment industry has been experiencing adversity in 2020. The survivors will gain market share from those who fail and quit and we foresee that market consolidation will continue. We believe, with the profound relationships with our valued customers and partners, our diversified deployment in the PRC, Vietnam and Sri Lanka, as well as our core value “Built on Innovation and Technology” in action, Best Pacific will not just overcome the short-term difficulties brought by COVID-19, but also continue to grow our market share sustainably and be able to deliver a satisfactory return to our investors in the long run.

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 2020.

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 2020 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 2020 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 and registered public interest entity auditors 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 2020 (for the six months ended 30 June 2019: nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is of the view that throughout the six months ended 30 June 2020, 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, 27 August 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*