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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

HIGHLIGHTS

- The Group's revenue for the year ended 31 December 2020 amounted to approximately HK\$3,494.3 million, representing a decrease of approximately 3.9% when compared to the year ended 31 December 2019.
- Sales revenue of sportswear and apparel fabric materials recorded a year-on-year growth of approximately 36.0%.
- Gross profit margin of the Group remained stable at approximately 24.1% for the year ended 31 December 2020 (for the year ended 31 December 2019: approximately 24.0%).
- Profit attributable to owners of the Company amounted to approximately HK\$257.8 million, representing a decrease of approximately 14.3% as compared to the year ended 31 December 2019.
- Basic earnings per share was approximately HK24.79 cents for the year ended 31 December 2020, representing a decrease of approximately 14.3% from approximately HK28.92 cents for the year ended 31 December 2019.
- Proposed to declare a final dividend of HK7.4 cents per share in respect of the year ended 31 December 2020 (2019: HK5.8 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 2020, together with the comparative figures for the year ended 31 December 2019, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue	3	3,494,274	3,637,762
Cost of sales		<u>(2,650,914)</u>	<u>(2,764,953)</u>
Gross profit		843,360	872,809
Other income		43,806	32,138
Other gains and losses		(25,717)	11,794
Net remeasurement of credit loss allowance for trade receivables		(6,282)	(2,344)
Selling and distribution expenses		(156,484)	(170,294)
Administrative expenses		(253,866)	(221,665)
Research and development costs		(81,134)	(97,783)
Share of result of a joint venture		1,983	2,806
Finance costs		<u>(75,700)</u>	<u>(90,815)</u>
Profit before taxation	5	289,966	336,646
Income tax expense	6	<u>(40,773)</u>	<u>(37,567)</u>
Profit for the year		<u>249,193</u>	<u>299,079</u>
Profit (loss) for the year attributable to			
– Owners of the Company		257,769	300,724
– Non-controlling interests		<u>(8,576)</u>	<u>(1,645)</u>
		<u>249,193</u>	<u>299,079</u>
Earnings per share	8		
– Basic (HK cents)		<u>24.79</u>	<u>28.92</u>
– Diluted (HK cents)		<u>N/A</u>	<u>28.92</u>

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit for the year	<u>249,193</u>	<u>299,079</u>
Other comprehensive income (expense):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	204,146	(73,573)
Share of translation reserve of a joint venture	1,360	(390)
Items that will not be reclassified to profit or loss:		
Fair value gain on investment in a partnership	–	1,981
Remeasurement of retirement benefit obligations, net of tax	<u>(842)</u>	<u>137</u>
Other comprehensive income (expense) for the year	<u>204,664</u>	<u>(71,845)</u>
Total comprehensive income for the year	<u><u>453,857</u></u>	<u><u>227,234</u></u>
Total comprehensive income (expense) for the year attributable to		
– Owners of the Company	462,717	228,814
– Non-controlling interests	<u>(8,860)</u>	<u>(1,580)</u>
	<u><u>453,857</u></u>	<u><u>227,234</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		2,970,302	2,893,902
Right-of-use assets		272,109	246,804
Interest in a joint venture		34,751	31,408
Deposits		25,668	87,881
Deferred tax assets		5,387	8,824
		3,308,217	3,268,819
Current assets			
Inventories		922,301	1,065,160
Trade and bills receivables	<i>9</i>	807,898	754,490
Other receivables, deposits and prepayments		98,521	86,777
Tax recoverables		10,773	17,375
Pledged bank deposits		77,944	76,823
Short term bank deposits		8,338	19,010
Bank balances and cash		1,092,855	576,773
		3,018,630	2,596,408
Current liabilities			
Trade payables	<i>10</i>	243,050	246,337
Bills payables	<i>10</i>	323,248	386,546
Other payables and accrued charges		280,981	237,261
Contract liabilities		33,267	40,964
Bank borrowings	<i>11</i>	1,313,569	1,645,119
Lease liabilities		13,485	10,474
Tax payables		15,351	22,713
Derivative financial instrument		1,402	–
		2,224,353	2,589,414
Net current assets		794,277	6,994
Total assets less current liabilities		4,102,494	3,275,813

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
Non-current liabilities			
Bank and other borrowings	<i>11</i>	972,952	574,201
Lease liabilities		76,647	62,926
Derivative financial instrument		–	1,403
Deferred income		16,340	3,860
Deferred tax liabilities		5,758	11,423
Retirement benefit obligations		9,060	6,922
Other liabilities		3,556	–
		<u>1,084,313</u>	<u>660,735</u>
Net assets		<u>3,018,181</u>	<u>2,615,078</u>
Capital and reserves			
Share capital	<i>12</i>	10,398	10,398
Reserves		<u>2,923,905</u>	<u>2,521,497</u>
Equity attributable to owners of the Company		2,934,303	2,531,895
Non-controlling interests		<u>83,878</u>	<u>83,183</u>
Total equity		<u>3,018,181</u>	<u>2,615,078</u>

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

For the year ended 31 December 2020

1. GENERAL INFORMATION

The Company is a public company 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 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 principal activities of the Company and its subsidiaries are manufacturing and trading of elastic fabric, lace and elastic webbing.

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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("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 consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>
Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>

The application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

2.1 Impacts on application of Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. 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 year had no material impact on the consolidated financial statements.

2.2 Impacts on application of Amendments to HKFRS 3 Definition of a Business

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group make any acquisition.

3. REVENUE

The Group's revenue is derived from manufacturing and trading of elastic fabric, lace and elastic webbing in the People's Republic of China (the "PRC"), Hong Kong, 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 year ended 31 December 2020

Types of goods	Manufacturing and trading of elastic fabric and lace <i>HK\$'000</i>	Manufacturing and trading of elastic webbing <i>HK\$'000</i>	Total <i>HK\$'000</i>
Sales of products			
Elastic Fabric			
– Lingerie	964,910	–	964,910
– Sportswear and apparel	1,696,016	–	1,696,016
	2,660,926	–	2,660,926
Lace	84,323	–	84,323
Elastic webbing	–	749,025	749,025
	2,745,249	749,025	3,494,274

For the year ended 31 December 2019

Types of goods	Manufacturing and trading of elastic fabric and lace <i>HK\$'000</i>	Manufacturing and trading of elastic webbing <i>HK\$'000</i>	Total <i>HK\$'000</i>
Sales of products			
Elastic Fabric			
– Lingerie	1,393,996	–	1,393,996
– Sportswear and apparel	1,247,079	–	1,247,079
	<u>2,641,075</u>	<u>–</u>	<u>2,641,075</u>
Lace	86,522	–	86,522
Elastic webbing	–	910,165	910,165
	<u>2,727,597</u>	<u>910,165</u>	<u>3,637,762</u>

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 *Operating Segments* 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 2020

	Manufacturing and trading of elastic fabric and lace <i>HK\$'000</i>	Manufacturing and trading of elastic webbing <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue from external customers	<u>2,745,249</u>	<u>749,025</u>	<u>3,494,274</u>
Segment profits	<u>257,878</u>	<u>144,798</u>	402,676
Unallocated other income			13,576
Unallocated other gains and losses			(25,642)
Unallocated corporate expenses			(26,927)
Share of result of a joint venture			1,983
Finance costs			<u>(75,700)</u>
Profit before taxation			<u>289,966</u>

For the year ended 31 December 2019

	Manufacturing and trading of elastic fabric and lace <i>HK\$'000</i>	Manufacturing and trading of elastic webbing <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue from external customers	<u>2,727,597</u>	<u>910,165</u>	<u>3,637,762</u>
Segment profits	<u>229,489</u>	<u>182,803</u>	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			<u>(90,815)</u>
Profit before taxation			<u>336,646</u>

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 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 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 2020

	Manufacturing and trading of elastic fabric and lace <i>HK\$'000</i>	Manufacturing and trading of elastic webbing <i>HK\$'000</i>	Total <i>HK\$'000</i>
ASSETS			
Segment assets	4,372,162	678,550	5,050,712
Property, plant and equipment			2,127
Right-of-use assets			13,982
Interest in a joint venture			34,751
Deferred tax assets			5,387
Other receivables, deposits and prepayments			29,978
Tax recoverables			10,773
Pledged bank deposits			77,944
Short term bank deposits			8,338
Bank balances and cash			1,092,855
Total assets			6,326,847
LIABILITIES			
Segment liabilities	756,218	203,552	959,770
Other payables and accrued charges			25,713
Bank and other borrowings			2,286,521
Lease liabilities			14,151
Tax payables			15,351
Deferred tax liabilities			5,758
Derivative financial instrument			1,402
Total liabilities			3,308,666

As at 31 December 2019

	Manufacturing and trading of elastic fabric and lace <i>HK\$'000</i>	Manufacturing and trading of elastic webbing <i>HK\$'000</i>	Total <i>HK\$'000</i>
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
Other payables and accrued charges			10,325
Bank and other borrowings			2,219,320
Tax payables			22,713
Deferred tax liabilities			11,423
Derivative financial instrument			<u>1,403</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 certain property, plant and equipment and right-of-use assets for corporate use, interest in a joint venture, deferred tax assets, 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, lease liabilities for corporate use, tax payables, deferred tax liabilities, derivative financial instrument and certain corporate liabilities.

Other segment information

For the year ended 31 December 2020

	Manufacturing and trading of elastic fabric and lace <i>HK\$'000</i>	Manufacturing and trading of elastic webbing <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amounts included in the measure of segment profit or segment assets:				
Additions of property, plant and equipment	253,320	34,697	2,876	290,893
Additions of right-of-use assets	10,240	18,300	15,131	43,671
Depreciation of property, plant and equipment	243,484	64,943	301	308,728
Depreciation of right-of-use assets	15,125	5,842	2,321	23,288
Net remeasurement of credit loss allowance for trade receivables	4,114	2,168	–	6,282
Allowance for slow-moving inventories	22,284	2,004	–	24,288
	<u>253,320</u>	<u>34,697</u>	<u>2,876</u>	<u>290,893</u>

For the year ended 31 December 2019

	Manufacturing and trading of elastic fabric and lace <i>HK\$'000</i>	Manufacturing and trading of elastic webbing <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
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
Allowance for slow-moving inventories	–	–	–	–
	<u>432,684</u>	<u>89,631</u>	<u>101</u>	<u>522,416</u>

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 Mainland China, 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	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	774,633	1,138,472
Mainland China	754,424	750,122
Sri Lanka	542,144	652,090
Vietnam	332,264	205,313
Taiwan	246,466	56,001
South Korea	177,954	124,767
Europe and the U.S.	90,768	111,190
Thailand	90,343	99,778
Indonesia	84,267	118,079
Others	401,011	381,950
	<u>3,494,274</u>	<u>3,637,762</u>

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

	As at 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Mainland China	1,759,666	1,769,704
Vietnam	925,058	925,959
Sri Lanka	592,042	544,460
Hong Kong	23,088	19,872
	<u>3,299,854</u>	<u>3,259,995</u>

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group for the years ended 31 December 2020 and 2019 are as follows:

	Year ended 31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from manufacturing and trading of elastic fabric and lace		
– customer A	396,363	450,106
– customer B	400,151	439,136
Revenue from manufacturing and trading of elastic webbing		
– customer A	79,779	79,887
– customer B	25,560	63,192
	<u>801,853</u>	<u>1,032,321</u>

5. PROFIT BEFORE TAXATION

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration	2,437	2,350
Staff costs		
Directors' remuneration	23,304	12,495
Other staff costs		
– salaries and other benefits	605,392	618,722
– contributions to retirement benefits schemes	32,347	44,861
	661,043	676,078
Depreciation of property, plant and equipment	308,728	262,150
Depreciation of right-of-use assets	23,288	18,909
Depreciation capitalised in inventories	(269,337)	(219,903)
	62,679	61,156
Cost of inventories recognised as an expense	2,650,914	2,764,953

6. INCOME TAX EXPENSE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	6,814	5,417
The PRC Enterprise Income Tax (“EIT”)	24,551	35,686
Withholding tax on dividends from subsidiaries	8,147	4,016
Income tax in other jurisdiction	60	–
Under (over) provision in prior years:		
Hong Kong Profits Tax	3,021	49
The PRC EIT	533	(9,633)
	43,126	35,535
Deferred taxation	(2,353)	2,032
	40,773	37,567

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduced 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%.

Accordingly, the Hong Kong Profits Tax for the qualifying group entity had been 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 2020, unless there is any applicable preferential tax treatment.

The Company's subsidiaries, Dongguan Best Pacific Textile Company Limited (“**Dongguan BPT**”) and Dongguan New Horizon Elastic Fabric Company Limited (“**Dongguan NHE**”), had obtained the qualification as high and new technology enterprises since 2010 and 2016, respectively, which were renewed for an additional three years from the year ended 31 December 2019. Hence, Dongguan BPT and Dongguan NHE had been subject to the preferential tax treatment and the applicable tax rate for the years ended 31 December 2019 and 2020 was 15%.

Withholding tax on dividends was calculated at 5% of the estimated dividend to be received from the subsidiaries 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 had been 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 had enjoyed a preferential tax rate of 14% for the years ended 31 December 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

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2019 Final dividend – HK5.8 cents		
(2019: 2018 Final dividend HK6.7 cents) per share	60,309	69,667

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2020 of HK7.4 cents per ordinary share (approximately HK\$76.9 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:

	2020	2019
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company) (HK\$'000)	<u>257,769</u>	<u>300,724</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,039,808,000	1,039,784,712
Effect of dilutive potential ordinary shares: Share options issued by the Company	<u>N/A</u>	<u>12,746</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>N/A</u>	<u>1,039,797,458</u>

No diluted earnings per share for the year ended 31 December 2020 was presented as there were no potential ordinary shares in issue during the year.

9. TRADE AND BILLS RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	806,166	746,950
Less: Allowance for credit losses (<i>Note</i>)	<u>(12,669)</u>	<u>(26,902)</u>
Total trade receivables	793,497	720,048
Bills receivables	<u>14,401</u>	<u>34,442</u>
Total trade and bills receivables	<u>807,898</u>	<u>754,490</u>

Note: During the year ended 31 December 2020, an amount of approximately HK\$20,920,000 in relation to a credit-impaired balance was written off due to the debtor being in severe financial difficulty and there had been no realistic prospect of recovery.

Trade receivables from third parties 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 with respect to sales delivered in the particular month.

The following ageing analysis of trade receivables, net of credit loss allowance, is presented based on the date of issuance of monthly statements at the end of each reporting period and the ageing analysis of bills receivables is presented based on the date of issuance of the bills at the end of each reporting period:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables		
0 – 90 days	740,517	644,579
91 – 180 days	42,756	49,948
Over 180 days	10,224	25,521
	<u>793,497</u>	<u>720,048</u>
Bills receivables		
0 – 90 days	<u>14,401</u>	<u>34,442</u>
	<u>807,898</u>	<u>754,490</u>

10. TRADE AND BILLS PAYABLES

Trade payables

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 – 90 days	229,551	230,488
Over 90 days	13,499	15,849
	<u>243,050</u>	<u>246,337</u>

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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 – 90 days	222,684	266,328
91 – 180 days	100,564	120,218
	<u>323,248</u>	<u>386,546</u>

11. BANK AND OTHER BORROWINGS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Bank overdrafts	–	32,225
Unsecured syndicated loan	1,006,673	949,401
Unsecured bank borrowings	1,234,940	1,218,194
Unsecured other borrowing (<i>Note</i>)	44,908	19,500
	<u>2,286,521</u>	<u>2,219,320</u>
Carrying amount repayable*:		
Within one year	1,091,540	1,435,920
More than one year, but not exceeding two years	269,868	441,047
More than two years, but not exceeding five years	925,113	342,353
	<u>2,286,521</u>	<u>2,219,320</u>
Less: Amounts due within one year or contain a repayment on demand clause shown under current liabilities	<u>(1,313,569)</u>	<u>(1,645,119)</u>
Amounts shown under non-current liabilities	<u>972,952</u>	<u>574,201</u>
Carrying amount of bank borrowings that are repayable within one year and contain a repayment on demand clause	1,012,911	1,036,928
Carrying amount of bank borrowings that are repayable more than one year but contain a repayment on demand clause	222,029	209,199
	<u>1,234,940</u>	<u>1,246,127</u>

* The amounts due are based on scheduled repayment dates set out in the loan agreements and include 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 2023. Such other borrowing is denominated in USD.

During the year ended 31 December 2017, the Group entered into a facility agreement for an unsecured syndicated loan (“**2017 Syndicated Loan**”), which was 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% per annum for HK\$ loan tranche and LIBOR plus 2.2% per annum for USD loan tranche. During the year ended 31 December 2020, the Group entered into a new facility agreement for an unsecured syndicated loan (“**2020 Syndicated Loan**”), which is repayable by installments, from 31 December 2021 to 31 December 2023 and with an interest rate at HIBOR plus 2.2% per annum for HK\$ loan tranche and LIBOR plus 2.2% per annum for US\$ loan tranche. Certain proceeds from the 2020 Syndicated Loan were used to fully repay the 2017 Syndicated Loan. The 2017 Syndicated Loan and 2020 Syndicated Loan were 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 2020 and 2019.

The Group has floating-rate borrowings which carry interest at HIBOR plus 1.40% to 2.20% or LIBOR plus 1.40% to 2.75% (2019: HIBOR plus 1.40% to 2.50% or LIBOR plus 1.40% to 2.75%) 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 2019 and 31 December 2019 and 2020	<u>50,000,000,000</u>	<u>500,000,000</u>	<u>500,000</u>
Issued and fully paid:			
At 1 January 2019	<u>1,039,723,000</u>	<u>10,397,230</u>	<u>10,397</u>
Issue of shares upon exercise of share options (<i>Note</i>)	<u>85,000</u>	<u>850</u>	<u>1</u>
At 31 December 2019 and 2020	<u>1,039,808,000</u>	<u>10,398,080</u>	<u>10,398</u>

There was no movement in the Company's share capital during the year ended 31 December 2020.

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

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

13. EVENT AFTER THE REPORTING PERIOD

On 29 January 2021, Trischel Fabric (Private) Limited (“**Trischel**”) (a non-wholly owned subsidiary of the Company) entered into an Assets Sale and Purchase Agreement (“**Assets Sale and Purchase Agreement**”) with Textprint Lanka (Private) Limited (“**Textprint**”) (an indirect wholly-owned subsidiary of MAS Holdings (Private) Limited, being the non-controlling shareholder of Trischel) in relation to the sales and purchase of assets which consisted of (i) fixed assets which mainly included printing machines, washing machines, boilers, steamers, fabric inspection machines, dryers and other equipment for printing synthetic fabrics and the associated finishing processes currently used at the manufacturing plant of Textprint (the “**Plant**”), as well as (ii) inventory of Textprint for printing business as recorded in the management accounts of Textprint as at 31 January 2021. Pursuant to the Assets Sale and Purchase Agreement, Textprint shall transfer up to 252 of its employees to Trischel.

The consideration for the transactions contemplated under the Assets Sale and Purchase Agreement is estimated to be no more than US\$4,000,000 (equivalent to approximately HK\$31,200,000). The consideration shall also be subject to deduction on account of unpaid utility bills relating to the Plant, outstanding staff related costs, wages and/or existing or pending claims of the transferring employees. Pursuant to the Assets Sale and Purchase Agreement, the JV Company shall pay US\$2,199,650.33 (equivalent to approximately HK\$17,157,000) to Textprint on the date of completion.

Completion of this transaction had taken place on 1 February 2021. Details of this transaction were disclosed in the Company's announcement dated 29 January 2021. The directors of the Company are in the process of assessing the financial impact of such transaction to the consolidated financial statements in the next reporting period.

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 2020.

Following the declaration of 2019 novel coronavirus disease (“**COVID-19**”) epidemic an international public health emergency in January 2020, and subsequently a global pandemic in March 2020, most countries in the world had been experiencing unprecedented challenges for most time of 2020. As part of the countermeasures to the global pandemic, governments around the world paused both manufacturing and social activities at different points in time throughout the year, which had led to far-reaching economic and social consequences around the globe. Inevitably, the textile and garment industry had to face the same challenges and coupled with the continuous political and trade tensions between the PRC and the U.S., many companies within the space were actually battling for survival.

With the serious disruption to industrial and commercial activities and the associated changes and shifts in consumer demands and spending patterns, the global gross domestic product (“**GDP**”) in 2020 was projected to be around US\$130 trillion according to the International Monetary Fund, which was almost US\$9.6 trillion less, as compared to that in 2019.

Despite the difficult business environment and operating conditions in 2020, the Group had made tremendous efforts to stabilize its production and operations. Our long-term strategy to improve agility and resilience and efforts in building an international manufacturing footprint had received overwhelming applause and appreciation from both existing and new customers. The Group was helpful to our customers by shifting their production among our different manufacturing plants across the world during times of lockdown at a specific production site. On the other hand, the team had continued to seize the enormous potentials of the sportswear and apparel markets and the Group had achieved an encouraging growth of approximately 36.0% in its sales of elastic fabric for sportswear and apparel use during the year ended 31 December 2020. The achievement of such has further reinstated Best Pacific's ambition to be a leading textile player and to sustain its long term strategy to develop this specific market segment.

Despite the exceptionally difficult time in 2020, the Group had successfully secured a new syndication loan facility amounting to HK\$1.8 billion in June 2020, which had contributed to the financial and risk management of the Group. The management will continue to deploy resources to the future development of the Group and we will continue to work with our customers and business partners, striving to deliver a promising return to our shareholders in the long run.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The invasion of COVID-19 around the world in 2020 had led to a serious disruption to economic and social activities in many countries. Temporary suspension of operations at the Group's different manufacturing sites had been mandated by the local authority at different points in time since the first quarter of 2020. Alongside with the adoption of various emergency public health measures, the rapid and continuing spread of the virus since the second quarter in 2020 had compelled other countries including the U.S. and Europe to announce nationwide lockdowns. According to the U.S. Bureau of Economic Analysis, the real GDP of the U.S. decreased by around 3.5% in 2020, compared with an increase of GDP growth of around 2.2% in 2019. These countermeasures and together with the mixed uncertainties had caused businesses to refrain from making investment decisions and individuals to control their spending, which then resulted in increased inventory levels at retailers and a consequent weak demand for textile and apparel products. The unfavourable impact on global consumer markets inevitably posted an adverse impact on our financial performance, especially in the first half of 2020.

Despite the rather difficult business environment in 2020, our farsighted internationalization plan had given the Group the ability in adjusting its operations to cope with the challenges brought about by both COVID-19 and U.S.-PRC trade tensions. With an aim to cater to the best interests of our clients, which included the reduction in production lead time as well as other trade and tariff considerations, production orders had been strategically assigned and processed at the specific manufacturing site within the Group, in the PRC, Vietnam and Sri Lanka.

Operation in Vietnam

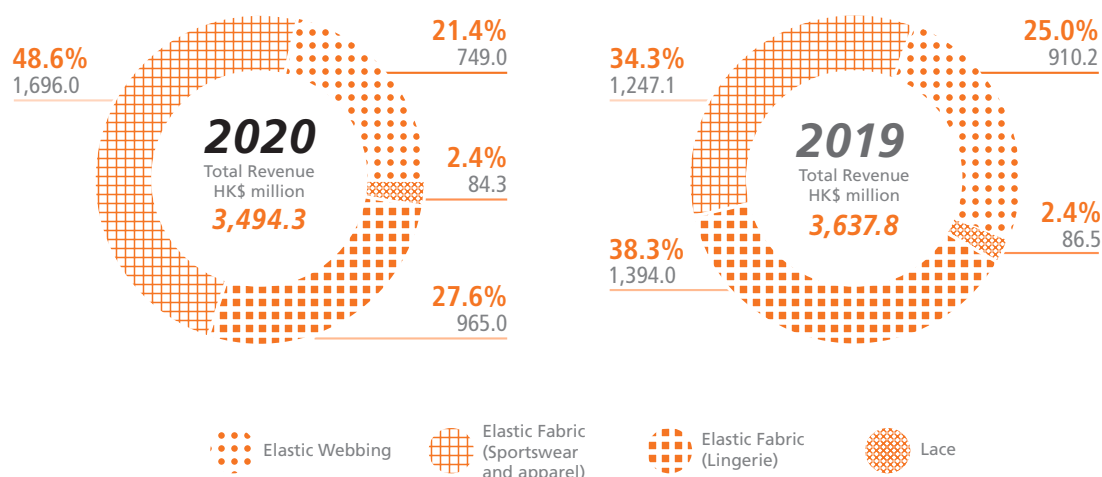
According to the General Statistics Office of Vietnam, Vietnam was one of the few countries recording positive growth in GDP in 2020. As compared to 2019, the GDP of Vietnam in 2020 was reported to grow by around 2.9%. Subsequent to the successful launch of Phase I and Phase II at our Vietnam manufacturing base by the second half of 2020, customers have shown their keen interests on the relevant capacities.

Looking forward, with Vietnam being perceived as one of the key beneficiaries of the Sino-U.S. trade tension and in order to meet the foreseeable upsurge in market demands for innovation textile products, we will continue exploring the feasibility of further capacity expansion into the region.

Operations in Sri Lanka

Throughout 2020, the sporadic temporary closure of the operations in Sri Lanka as a result of the pandemic and other human resource matters had caused some disruptions to the operations of the two joint ventures (the "JVs"). However, leveraging on the strategic partnership with the two reputable apparel and textile manufacturing leaders, namely MAS Holdings (Private) Limited, Brandix Lanka Limited and their related groups, we believe the JVs will facilitate the Group in gaining market share in the longer run.

In response to the above-mentioned uncertainties during the financial year 2020, the Group had executed various control measures to save costs in areas including human resources, sales and marketing as well as administrative functions. Starting from the third quarter of 2020, Central governments around the globe had been taking a proactive stimulus policy approach to promote consumer spending and economic growth. The general public also seemed to have learnt to live with the virus and the retail stores of most lingerie and sportswear and apparel brands had reopened, subsequent to the relaxation of certain control measures in different jurisdictions. Online shopping had also become a new norm and the global consumer markets had gradually opened up with demand for apparel products observing sequential improvements. Thanks to the growing health consciousness of the general public, the market demand for comfortable and innovative apparel is always on the rise and the athleisure trend has grown in popularity around the world. Our devotion to the manufacturing of comfortable and highly functional sports-related products had contributed to our significant sales growth in the related product segment. Our sales revenue of sportswear and apparel fabric materials segment increased to approximately HK\$1,696.0 million for the year ended 31 December 2020, representing a year-on-year growth of approximately 36.0%.



In order to cope with the adversity as brought about by COVID-19, Best Pacific had reacted proactively by taking various actions and measures, which included the continuous capacities automation, optimisation of human resource structure and further enhancement on production efficiencies. Coupled with a relatively strong rebound in market demands in general in the second half of 2020, we observed the following improvements in the Group's financials, with (i) revenue increased by approximately 48.4% from approximately HK\$1,406.7 million in the first half of 2020 to approximately HK\$2,087.6 million in the second half of 2020; and (ii) an improved net profit margin of approximately 8.2% for the six months ended 31 December 2020.

	For the six months ended		Change (HK\$'000)	%
	31 December 2020	30 June 2020		
Revenue (HK\$'000)	2,087,623	1,406,651	680,972	48.4
Gross profit (HK\$'000)	501,753	341,607	160,146	46.9
Gross profit margin (%)	24.0	24.3	(0.3% point)	
Net profit (HK\$'000)	172,012	77,181	94,831	122.9
Net profit margin (%)	8.2	5.5	2.7% points	

FINANCIAL REVIEW

Revenue

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

For the year ended 31 December 2020, revenue amounted to approximately HK\$3,494.3 million, representing a decrease of approximately HK\$143.5 million, or approximately 3.9%, from approximately HK\$3,637.8 million for the year ended 31 December 2019. The decrease in overall revenue during the year was mainly attributable to the decrease in the volume of lingerie materials 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 years ended 31 December 2020 and 2019 by product categories is as follows:

	For the year ended 31 December				Change	
	2020		2019			
	Revenue (HK\$'000)	% of Revenue	Revenue (HK\$'000)	% of Revenue	(HK\$'000)	%
Elastic fabric	2,660,926	76.2	2,641,075	72.6	19,851	0.8
Elastic webbing	749,025	21.4	910,165	25.0	(161,140)	(17.7)
Lace	84,323	2.4	86,522	2.4	(2,199)	(2.5)
Total	3,494,274	100.0	3,637,762	100.0	(143,488)	(3.9)

For the year ended 31 December 2020, revenue from sales of elastic fabric amounted to approximately HK\$2,660.9 million, representing an increase of approximately HK\$19.9 million, or approximately 0.8%, as compared to the year ended 31 December 2019. Our sales revenue of lingerie fabric materials decreased from approximately HK\$ 1,394.0 million for the year ended 31 December 2019 to approximately HK\$965.0 million for the year ended 31 December 2020, representing a year-on-year decline of approximately 30.8%. It was mainly due to the general stagnant consumer markets as impacted by COVID-19 and the forced operational restructuring of some key lingerie retailers during the year. Nevertheless, 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 year-on-year growth of approximately 36.0% in sales revenue of sportswear and apparel fabric materials.

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\$749.0 million for the year ended 31 December 2020, representing a decrease of approximately HK\$161.1 million, or approximately 17.7%, as compared to the year ended 31 December 2019. We had started supplying elastic webbing products to several face mask manufacturers during the pandemic time. The relevant income amounted approximately HK\$39.5 million, which partly offset the decrease in sales volume of other elastic webbing products during the year ended 31 December 2020.

Revenue from sales of lace decreased from approximately HK\$86.5 million for the year ended 31 December 2019 to approximately HK\$84.3 million for the year ended 31 December 2020. The year-on-year decrease of revenue from sales of lace by approximately 2.5% was mainly due to the decrease in sales volume of lace in the year ended 31 December 2020, as compared to the year ended 31 December 2019.

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				Change	
	2020		2019		(HK\$'000)	%
	<i>Cost of sales</i>	<i>% of cost</i>	<i>Cost of sales</i>	<i>% of cost</i>		
	<i>(HK\$'000)</i>	<i>of sales</i>	<i>(HK\$'000)</i>	<i>of sales</i>		
Raw materials	1,289,819	48.7	1,446,828	52.3	(157,009)	(10.9)
Manufacturing overheads	1,036,207	39.1	1,023,099	37.0	13,108	1.3
Direct labour	306,146	11.5	276,603	10.0	29,543	10.7
Others	18,742	0.7	18,423	0.7	319	1.7
Total	2,650,914	100.0	2,764,953	100.0	(114,039)	(4.1)

The Group's cost of sales for the year ended 31 December 2020 amounted to approximately HK\$2,650.9 million, representing a decrease of approximately HK\$114.0 million, or approximately 4.1%, as compared to the year ended 31 December 2019.

As a response to the pandemic, the Group had adopted various cost-saving measures in the year so as to curb with the adverse impact brought by COVID-19. In addition, our raw materials purchase costs had slightly declined for most time during the year ended 31 December 2020. It had offset part of the adverse impact from the diseconomies of scale caused by the decrease in sales volume of lingerie materials, as well as some of the costing pressure from the appreciation of Renminbi.

Following the expansion of our overseas manufacturing bases in Vietnam and Sri Lanka and the associated increased headcount, the direct labour cost for the year ended 31 December 2020 increased by approximately 10.7% when compared to the year ended 31 December 2019.

Cost of sales – by product category

	For the year ended 31 December				Change	
	2020		2019		(HK\$'000)	%
	<i>Cost of sales (HK\$'000)</i>	<i>% of cost of sales</i>	<i>Cost of sales (HK\$'000)</i>	<i>% of cost of sales</i>		
Elastic fabric	2,090,444	78.9	2,107,709	76.2	(17,265)	(0.8)
Elastic webbing	510,291	19.2	614,152	22.2	(103,861)	(16.9)
Lace	50,179	1.9	43,092	1.6	7,087	16.4
Total	2,650,914	100.0	2,764,953	100.0	(114,039)	(4.1)

For the year ended 31 December 2020, the cost of sales of elastic fabric as a percentage of the total cost of sales increased by approximately 2.7 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 3.0 percentage points. It was mainly due to the promising growth in sales volume of sportswear and apparel fabric materials and the decrease in sales volume of elastic webbing in respect of the lukewarm lingerie market during the year ended 31 December 2020.

Gross profit, gross profit margin and net profit margin

	For the year ended 31 December			
	2020		2019	
	Gross profit (HK\$'000)	Gross profit margin (%)	Gross profit (HK\$'000)	Gross profit margin (%)
Elastic fabric	570,482	21.4	533,366	20.2
Elastic webbing	238,734	31.9	296,013	32.5
Lace	34,144	40.5	43,430	50.2
Total	843,360	24.1	872,809	24.0

The Group had maintained a comparative profitability level as compared to last year with the overall gross profit decreasing from approximately HK\$872.8 million for the year ended 31 December 2019 to approximately HK\$843.4 million for the year ended 31 December 2020.

Net profit of the Group for the year ended 31 December 2020 amounted to approximately HK\$249.2 million, representing a decrease of approximately 16.7% as compared to approximately HK\$299.1 million for the year ended 31 December 2019. The Group recorded a net profit margin of approximately 7.1% for the year ended 31 December 2020, representing a decrease of approximately 1.1 percentage points, as compared to the year ended 31 December 2019. The decrease in net profit margin for the year ended 31 December 2020 was mainly due to (i) the net foreign exchange loss as a result of the general appreciation of RMB during the year ended 31 December 2020; and (ii) the slower than expected ramp up at our new expansions, as adversely impacted by COVID-19.

Other income

The Group's other income mainly consists of government grants, compensation income, bank interest income, net proceeds from sales of scrap materials 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	
	2020	2019
	(HK\$'000)	(HK\$'000)
Government grants	13,036	6,052
Compensation income	11,584	1,260
Bank interest income	8,238	6,996
Net proceeds from sales of scrap materials	5,547	10,435
Others	5,401	7,395
Total	43,806	32,138

The increase in other income by approximately 36.3%, from approximately HK\$32.1 million for the year ended 31 December 2019 to approximately HK\$43.8 million for the year ended 31 December 2020, was mainly due to the increase in government grants and compensation income received.

Other gains and losses

Other gains and losses mainly consisted of net foreign exchange (loss) gain, gain on disposal of property, plant and equipment, 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 years indicated:

	For the year ended	
	31 December	
	2020	2019
	(HK\$'000)	(HK\$'000)
Net foreign exchange (loss) gain	(26,327)	13,803
Gain on disposal of property, plant and equipment	72	42
Gain from change in fair value of a derivative financial instrument	1	1,792
Others	537	(3,843)
Total	(25,717)	11,794

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 year ended 31 December 2020, the net remeasurement of credit loss allowance for trade receivables amounted to approximately HK\$6.3 million, representing an increase of approximately HK\$4.0 million from approximately HK\$2.3 million for the year ended 31 December 2019. Such increase was mainly the results of the temporary delay in settlement of payments by certain customers as caused by their deteriorating financial position during the year ended 31 December 2020.

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 2019 and 2020, the Group's selling and distribution expenses represented approximately 4.7% and 4.5% of its total revenue, respectively.

Administrative expenses

Administrative expenses primarily consist of employee benefit expenses, depreciation, motor vehicle expenses, bank charges and other administrative expenses. For the years ended 31 December 2019 and 2020, the Group's administrative expenses represented approximately 6.1% and 7.3% of its total revenue, respectively. The increase in ratio of administrative expenses against total revenue was mainly due to the slower than expected ramp up at our new expansions, as adversely impacted by COVID-19.

Research and development costs

The Group is dedicated to cater to the changing market preferences by introducing innovative lingerie, sportswear and apparel materials. For the years ended 31 December 2019 and 2020, the Group's research and development costs represented approximately 2.7% and 2.3% of its total revenue, respectively. The decrease in research and development costs was mainly due to the integration of research and development projects and other cost-saving measures launched during the pandemic time in the year ended 31 December 2020.

Finance costs

The Group's finance costs mainly represent interest expenses for bank borrowings and lease liabilities. The finance costs decreased by approximately 16.6% from approximately HK\$90.8 million for the year ended 31 December 2019 to approximately HK\$75.7 million for the year ended 31 December 2020. The decrease in finance costs was primarily due to the overall decrease in average borrowings balance of the Group as well as market interest rate during the year ended 31 December 2020.

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, the Hong Kong Profits Tax for the qualifying group entity had been 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 2019 and 2020, unless there is any applicable preferential tax treatment.

The Company's subsidiaries, Dongguan BPT and Dongguan NHE, had obtained the qualification as high and new technology enterprises since 2010 and 2016, respectively, which were renewed for an additional three years from the year ended 31 December 2019. Hence, Dongguan BPT and Dongguan NHE had been subject to the preferential tax treatment and the applicable tax rate for the years ended 31 December 2019 and 2020 was 15%.

Withholding tax on dividends was calculated at 5% of the estimated dividend to be received from the subsidiaries 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 had been 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 had enjoyed a preferential tax rate of 14% for the years ended 31 December 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 14.1% (for the year ended 31 December 2019: 11.2%) for the year ended 31 December 2020. The increase in effective tax rate was mainly due to the increase in withholding tax being recognised as more dividends are expected to be distributed from subsidiaries.

Liquidity, financial resources and bank borrowings

As at 31 December 2020, net working capital (calculated as current assets less current liabilities) was approximately HK\$794.3 million, representing an increase of approximately HK\$787.3 million as compared with 31 December 2019. The current ratio (calculated as current assets/current liabilities) is at 1.4 times as at 31 December 2020 as compared to 1.0 time as at 31 December 2019.

For the year ended 31 December 2020, net cash generated from operating activities increased from approximately HK\$407.8 million for the year ended 31 December 2019 to approximately HK\$754.2 million for the year ended 31 December 2020, which was mainly due to the Group's better management on its inventories level.

Net cash used in investing activities amounted to approximately HK\$212.7 million for the year ended 31 December 2020, as compared to net cash used in investing activities amounting to approximately HK\$512.7 million for the year ended 31 December 2019. As impacted by the pandemic, the decrease in net cash used in investing activities was mainly due to less investments being made during the year ended 31 December 2020.

During the year ended 31 December 2020, net cash used in financing activities amounted to approximately HK\$47.8 million, as compared to net cash from financing activities of approximately HK\$210.2 million for the year ended 31 December 2019. The increase in net cash used in financing activities for the year ended 31 December 2020 was mainly due to the overall stronger cash positions and less reliance on bank borrowings of the Group throughout the year ended 31 December 2020.

As at 31 December 2020, the Group's net gearing ratio was 36.7% (as at 31 December 2019: 59.1%), 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) as a percentage of total equity. The Group was in a net debt position of approximately HK\$1,107.4 million as at 31 December 2020, as compared to a net debt position of approximately HK\$1,546.7 million as at 31 December 2019.

Working capital management

	For the year ended		Change	
	31 December 2020	2019	(days)	(%)
Trade and bills receivables turnover days	81.8	74.5	7.3	9.8
Trade and bills payables turnover days	82.8	81.7	1.1	1.3
Inventory turnover days	137.2	127.4	9.8	7.7

The increase in trade and bills receivables turnover days for the year ended 31 December 2020 by approximately 7.3 days was primarily due to the temporary delay in settlement of payments by some customers whose businesses were adversely impacted by COVID-19.

The trade and bills payables turnover days remained relatively stable for the year ended 31 December 2019 and the year ended 31 December 2020.

The increase in inventory turnover days from 127.4 days for the year ended 31 December 2019 to 137.2 days for the year ended 31 December 2020 was primarily attributable to the Group's continues expansion plans across the years and the adverse impacts as brought about by COVID-19.

Capital expenditure

The capital expenditure in 2020 primarily represented payments for expansion contracted for in prior years. The Group's total addition to property, plant and equipment decreased from approximately HK\$522.4 million for the year ended 31 December 2019 to approximately HK\$290.9 million for the year ended 31 December 2020, which was mainly attributable to the relatively conservative investment appetite of the Group during the pandemic time in 2020.

Pledge of assets

As at 31 December 2020, the Group pledged certain bank deposits, amounting to approximately HK\$77.9 million (as at 31 December 2019: approximately HK\$76.8 million), to secure the bills payables issued by the Group.

Contingent liabilities

As at 31 December 2020, 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, Vietnam Dong and Sri Lanka Rupee. The Group manages its foreign exchange risk by performing regular reviews and monitoring on 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.

Employees and remuneration policies

As at 31 December 2020, the Group employed a total of 7,825 full-time employees (as at 31 December 2019: 7,437). The increase in the number of employees was mainly due to the overseas expansion during the year.

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

The global future economy is still under the shadow by uncertainties stemming from the Sino – U.S. trade war and COVID-19. Nevertheless, we have seen a strong sales rebound since the second half of 2020. With mass COVID-19 vaccination by the general public around the world, the pandemic situation is expected to be stabilised and the pace of market recovery is anticipated to accelerate in 2021. In recent months, the market sentiment has continued to improve and we have seen healthy business development with both our sportswear and lingerie customers.

Best Pacific will continue to differentiate itself from its market peers and we are set to uphold our core value “Built on Innovation and Technology” to cater for the rising market demand for innovative apparel products, especially amid the current popular athleisure trend. This growing health consciousness will continue in the coming future and the sales revenue from our sportswear and apparel fabric materials segment is expected to remain as one of our growth drivers in the near future. While keeping a close eye on both domestic and international markets, the retail markets in the PRC is perceived to recover the fastest in 2021. The Group has prepared to seize more business opportunities from the newly developed sportswear and apparel clients in the PRC market.

As at 31 December 2020, the overall annual designed production capacities of elastic fabric, elastic webbing and lace of the Group were approximately 226.2 million meters, 1,872.2 million meters and 45.0 million meters, respectively. In order to cope with the growing market demands, the Group will continue its capacity expansion, both domestically and in overseas, at a moderate pace in the coming years. Being one of the pioneer market players to establish manufacturing facilities in Vietnam, we are optimistic about the industrial and economic development in the country. We will continue to explore the feasibility of further capacity expansion in Vietnam, with an eminent focus on maximizing the relevant investment returns. As expected, COVID-19 pandemic has delayed, to a certain extent, our 2020 expansion plan in Sri Lanka and we will revisit the relevant plan and strive to improve the manufacturing efficiencies at our Sri Lanka operations as soon as we can.

Because of the rebound of crude oil price, as well as the relatively low level of petroleum refinery activities, the market prices of many oil by-products and chemical raw materials had soared since the fourth quarter of 2020. Nevertheless, the tension in employment market in the PRC and Vietnam will also continue to add weight to our staff costs in the near future. We are trying hard to digest these pressures, including but not limited to further optimisation of production efficiencies, benefits from economies of scale alongside the market recovery, as well as exploring the possibilities of price adjustments on our products with our customers and partnering brands.

Best Pacific will continue to grasp the vast opportunities arising from the sportswear and apparel sector. We strongly believe that, through our continual expansion, it will underpin Best Pacific’s long-term sustainability and ensure its ability to deliver value for its shareholders in the long run.

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 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 management the consolidated financial statements of the Group for the year ended 31 December 2020, 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 2020 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 HK7.4 cents per ordinary share in respect of the year ended 31 December 2020 (the "**Final Dividend**") (for the year ended 31 December 2019: HK5.8 cents). The Final Dividend is expected to be paid on or about 31 July 2021 to shareholders whose names appear on the register of members of the Company on 8 June 2021, subject to the approval by the shareholders at the forthcoming annual general meeting of the Company on 28 May 2021 (the "**AGM**").

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).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 25 May 2021 to 28 May 2021, 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 24 May 2021 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 8 June 2021 and the register of members of the Company will be closed from 4 June 2021 to 8 June 2021, 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 3 June 2021 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 2020.

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, 31 March 2021

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

* *Independent non-executive Director*