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 2018

HIGHLIGHTS

- The Group's revenue for the six months ended 30 June 2018 amounted to approximately HK$1,351.3 million, representing an increase of approximately 7.0% when compared to the six months ended 30 June 2017.

  Sales revenue of sportswear and apparel fabric materials achieved a period-on-period growth of approximately 21.6%.

- The Group's gross profit for the six months ended 30 June 2018 amounted to approximately HK$323.0 million, representing a decrease of approximately 10.9% when compared to the six months ended 30 June 2017. Gross profit margin decreased by approximately 4.8 percentage points to approximately 23.9%, as compared to the six months ended 30 June 2017.

- Net profit for the six months ended 30 June 2018 amounted to approximately HK$102.8 million, representing a decrease of approximately 26.9% as compared to approximately HK$140.7 million for the six months ended 30 June 2017. The Group recorded a lower net profit margin of approximately 7.6% for the six months ended 30 June 2018, representing a decline of approximately 3.5 percentage points, as compared to approximately 11.1% for the six months ended 30 June 2017.

- Basic earnings per share was approximately HK10.04 cents for the six months ended 30 June 2018, representing a decrease of approximately 26.6% from approximately HK13.67 cents for the six months ended 30 June 2017.

- The Board has resolved not to declare any interim dividend for the six months ended 30 June 2018 (for the six months ended 30 June 2017: 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 2018 (the "**Reporting Period**"), together with the comparative figures for the six months ended 30 June 2017, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018 (unaudited)

		Six months ended	
	Notes	**30.6.2018** **HK$'000** **(unaudited)**	30.6.2017 HK$'000 (unaudited)
Revenue	*4*	**1,351,342**	1,262,498
Cost of sales		**(1,028,327)**	(899,840)
Gross profit		**323,015**	362,658
Other income		**17,486**	21,672
Other gains and losses		**6,792**	(8,137)
Selling and distribution expenses		**(69,996)**	(72,501)
Administrative expenses		**(87,711)**	(83,514)
Research and development costs		**(44,464)**	(37,382)
Share of result of a joint venture		**1,124**	1,569
Finance costs		**(28,067)**	(15,890)
Profit before taxation	*5*	**118,179**	168,475
Income tax expense	*6*	**(15,393)**	(27,769)
Profit for the period		**102,786**	140,706
Profit (loss) for the period attributable to			
– Owners of the Company		**104,054**	140,706
– Non-controlling interests		**(1,268)**	–
		102,786	140,706
Earnings per share	*8*		
Basic (HK cents)		**10.04**	13.67
Diluted (HK cents)		**10.02**	13.58

	Six months ended	
	30.6.2018	30.6.2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Profit for the period	**102,786**	140,706
Other comprehensive (expense) income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(24,134)**	74,668
Share of translation reserve of a joint venture	**(109)**	342
Fair value gain on an available-for-sale financial asset	**–**	515
Reclassified to profit and loss on disposal of an available-for-sale financial asset	**–**	(250)
Item that will not be reclassified to profit or loss:		
Fair value gain on investment in a partnership at fair value through other comprehensive income	**388**	–
Other comprehensive (expense) income for the period	**(23,855)**	75,275
Total comprehensive income for the period	**78,931**	215,981
Total comprehensive income (expense) for the period attributable to		
– Owners of the Company	**80,199**	215,981
– Non-controlling interests	**(1,268)**	–
	78,931	215,981

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018 (unaudited)

	Notes	**30.6.2018 HK$'000 (unaudited)**	31.12.2017 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*9*	**2,408,719**	2,277,003
Prepaid lease payments		**118,315**	103,021
Interest in a joint venture		**33,537**	32,413
Deposits		**104,038**	104,838
Available-for-sale financial asset		**–**	27,512
Investment in a partnership		**18,745**	–
Deferred tax assets		**2,640**	774
		2,685,994	2,545,561
Current assets			
Inventories		**727,723**	694,457
Prepaid lease payments		**2,564**	2,593
Trade and bills receivables	*10*	**541,440**	648,359
Other receivables, deposits and prepayments		**68,684**	80,537
Amount due from a related company		**382**	366
Pledged bank deposits		**52,265**	54,623
Short term bank deposits		**20,607**	11,687
Bank balances and cash		**485,808**	176,715
		1,899,473	1,669,337
Current liabilities			
Trade payables	*11*	**184,787**	181,616
Bills payables	*11*	**283,088**	285,175
Other payables and accrued charges		**144,971**	183,344
Contract liabilities		**28,376**	–
Amount due to a related company		**8,105**	–
Bank borrowings	*12*	**470,910**	262,486
Obligations under finance leases		**–**	629
Tax payables		**17,367**	11,740
		1,137,604	924,990
Net current assets		**761,869**	744,347
Total assets less current liabilities		**3,447,863**	3,289,908

	Notes	**30.6.2018** **HK$'000** **(unaudited)**	31.12.2017 HK$'000 (audited)
Non-current liabilities			
Bank borrowings	*12*	**1,099,822**	977,776
Derivative financial instrument		**2,773**	4,426
Deferred income		**6,145**	7,044
		1,108,740	989,246
Net assets		**2,339,123**	2,300,662
Capital and reserves			
Share capital	*13*	**10,366**	10,365
Reserves		**2,295,509**	2,290,881
Equity attributable to owners of the Company		**2,305,875**	2,301,246
Non-controlling interests		**33,248**	(584)
Total equity		**2,339,123**	2,300,662

NOTES

For the six months ended 30 June 2018

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements of the Group for the six months ended 30 June 2018 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than those changes in accounting policies resulting from application of new 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 2018 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

3.1 Changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current interim period, HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognise revenue from the manufacturing and trading of elastic fabric, lace and elastic webbing.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Based on the assessment of the Group, the directors of the Company consider that the application of HKFRS 15 has resulted in more disclosures, however, there is no material impact on the timing and amounts of revenue recognised in the current interim period.

3.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a goods and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

The Group's revenue from the sales of goods is recognised at a point in time when goods are delivered and control has been passed to customers.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) but the goods are not yet delivered and control is not yet passed to the customer.

3.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"

In the current period, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs, HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("**ECL**") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

3.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("**FVTPL**"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("**OCI**") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

*Equity instruments designated as at fair value through other comprehensive income ("**FVTOCI**")*

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and bills receivables, other receivables and deposits and amount due from a related company, pledged bank deposits, short term bank deposits, bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on trade receivables are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

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

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; or

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 3.2.2.

3.2.2 *Summary of effect arising from initial application of HKFRS 9*

The table below illustrates the classification and measurement (including impairment) of financial assets subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Available-for-sale financial asset HK$'000	Investment in a partnership at FVTOCI HK$'000	Trade receivables HK$'000	Deferred tax assets HK$'000	Investment revaluation reserve HK$'000	Retained profits HK$'000
Closing balance at 31 December 2017 – HKAS 39		27,512	–	639,089	774	–	1,482,297
Effect arising from initial application of HKFRS 9:							
Reclassification							
From available-for-sale financial asset	*(a)*	(27,512)	27,512	–	–	–	–
Remeasurement							
From cost less impairment to fair value	*(a)*	–	(915)	–	–	(915)	–
Impairment under ECL model	*(b)*	–	–	(16,231)	2,608	–	(13,623)
Opening balance at 1 January 2018		–	26,597	622,858	3,382	(915)	1,468,674

Notes:

(a) *Available-for-sale financial asset*

The Group elected to present in OCI for the fair value changes of its investment in a partnership previously classified as available-for-sale financial asset, which is related to unquoted equity investment previously measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$27,512,000 were reclassified from available-for-sale financial asset to investment in a partnership at FVTOCI. The fair value loss of approximately HK$915,000 relating to those unquoted equity investment previously carried at cost less impairment were adjusted to investment in a partnership at FVTOCI and investment revaluation reserve as at 1 January 2018.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise bills receivables, other receivables and deposits, amount due from a related company, pledged bank deposits, short term bank deposits, bank balances and cash, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of HK$16,231,000 has been recognised against retained profits. The additional loss allowance is charged against the respective asset. The deferred tax assets as at 1 January 2018 also increased by approximately HK$2,608,000.

Loss allowance for trade receivables as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	Trade receivables HK$'000
As 31 December 2017– HKAS 39	1,213
Amounts remeasured through opening retained profits	16,231
At 1 January 2018	17,444

Other than those disclosed above, the application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

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**") and the Socialist Republic of Vietnam ("**Vietnam**"), net of discounts and sales related taxes.

Segment information

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

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

- Manufacturing and trading of elastic fabric and lace

  This segment derives its revenue from manufacturing and trading of elastic fabric and lace made from synthetic fibres that are commonly used in knitted lingerie, apparel and sportswear 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 2018 (unaudited)

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

For the six months ended 30 June 2017 (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	837,676	424,822	1,262,498
Segment profits	122,824	82,999	205,823
Unallocated other income			5,981
Unallocated other gains and losses			(7,623)
Unallocated corporate expenses			(21,385)
Share of result of a joint venture			1,569
Finance costs			(15,890)
Profit before taxation			168,475

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment profits represent the results of each segment without allocation of corporate items including mainly bank interest income, dividend income from an available-for-sale financial asset, change in fair value of derivative financial instruments, net foreign exchange loss, share of result of a joint venture, gain on disposal of property, plant and equipment for corporate use, corporate expenses and finance costs. Corporate expenses include directors' remuneration paid or payable by the Group, equity-settled share-based payments 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 2018 (unaudited)

	Manufacturing and trading of elastic fabric and lace HK$'000	Manufacturing and trading of elastic webbing HK$'000	Total HK$'000
ASSETS			
Segment assets	3,038,288	768,376	3,806,664
Property, plant and equipment			51,173
Prepaid lease payments			17,735
Interest in a joint venture			33,537
Investment in a partnership			18,745
Deferred tax assets			2,640
Other receivables, deposits and prepayments			96,293
Pledged bank deposits			52,265
Short term bank deposits			20,607
Bank balances and cash			485,808
Total assets			4,585,467
LIABILITIES			
Segment liabilities	459,485	169,683	629,168
Other payables and accrued charges			18,199
Amount due to a related company			8,105
Bank borrowings			1,570,732
Tax payables			17,367
Derivative financial instrument			2,773
Total liabilities			2,246,344

As at 31 December 2017 (audited)

	Manufacturing and trading of elastic fabric and lace HK$'000	Manufacturing and trading of elastic webbing HK$'000	Total HK$'000
ASSETS			
Segment assets	3,079,139	783,098	3,862,237
Property, plant and equipment			3,817
Interest in a joint venture			32,413
Available-for-sale financial assets			27,512
Deferred tax assets			774
Other receivables, deposits and prepayments			45,120
Pledged bank deposits			54,623
Short term bank deposits			11,687
Bank balances and cash			176,715
Total assets			4,214,898
LIABILITIES			
Segment liabilities	424,754	225,507	650,261
Other payables and accrued charges			6,918
Bank borrowings			1,240,262
Obligations under finance leases			629
Tax payables			11,740
Derivative financial instrument			4,426
Total liabilities			1,914,236

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 and prepaid lease payments for corporate use or the property and plant under construction in Sri Lanka, interest in a joint venture, investment in a partnership, available-for-sale financial assets, deferred tax assets, 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 borrowings, obligations under finance leases, tax payables, derivative financial instrument and certain corporate liabilities.

5. PROFIT BEFORE TAXATION

	Six months ended 30.6.2018 HK$'000 (unaudited)	30.6.2017 HK$'000 (unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**110,177**	66,127
Amortisation of prepaid lease payments	**1,856**	1,928
Cost of inventories recognised as an expense	**1,028,327**	899,840
Including: allowance for obsolete inventories (reversed)/recognised	**(52)**	181
Bank interest income (included in other income)	**(3,339)**	(3,201)
Government grants (included in other income)	**(6,542)**	(9,950)
Dividend income from an available-for-sale financial asset (included in other income)	**–**	(1,316)
Proceeds from sales of scrap materials (included in other income)	**(3,389)**	(6,572)
Change in fair value of derivative financial instruments (included in other gains and losses)	**(1,653)**	(597)
Net remeasurement of loss allowance for trade receivables (included in other gains and losses) *(Note 10)*	**(4,108)**	–
Net foreign exchange loss (included in other gains and losses)	**590**	8,220
Gain on disposal of an available-for-sale financial asset (included in other gains and losses)	**–**	(250)
Equity-settled share based payments (included in administrative expenses)	**–**	1,705

6. INCOME TAX EXPENSE

	Six months ended 30.6.2018 HK$'000 (unaudited)	30.6.2017 HK$'000 (unaudited)
Current tax:		
Hong Kong Profits Tax	**14,110**	14,875
The PRC Enterprise Income Tax ("**EIT**")	**7,024**	15,987
Over provision in prior years:		
The PRC EIT	**(6,477)**	(3,182)
	14,657	27,680
Deferred taxation	**736**	89
	15,393	27,769

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both periods.

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% during both periods, unless there is any preferential tax treatment applicable.

Dongguan Best Pacific Textile Company Limited ("**Dongguan BPT**"), a subsidiary of the Company, has obtained the qualification as a high and new technology enterprise since 2010, which has been renewed for an additional three years from financial year ended 31 December 2016. Hence, Dongguan BPT is subject to the preferential tax treatment and the applicable tax rate for each of the six months ended 30 June 2017 and 2018 is 15%.

During the year ended 31 December 2016, Dongguan New Horizon Elastic Fabric Company Limited ("**Dongguan NHE**"), a subsidiary of the Company, was also qualified as a high and new technology enterprise for three years from the financial year ended 31 December 2016. Dongguan NHE is therefore also subject to the preferential tax treatment and the applicable tax rate for each of the six months ended 30 June 2017 and 2018 is 15%.

Pursuant to the relevant Vietnam Enterprises Income Tax rules and regulations, the applicable tax rate for the subsidiary operating in Vietnam is 20%. The subsidiary in Vietnam is eligible for tax holidays 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.

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 HK5.9 cents per ordinary share in respect of the year ended 31 December 2017 (2017: HK9.5 cents per ordinary share in respect of the year ended 31 December 2016) was declared and paid to the shareholders of the Company. The aggregate amount of final dividend declared which are paid in the current interim period amounted to HK$61,161,000 (2017: HK$97,845,000).

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 2018.

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:

	Six months ended	
	30.6.2018	30.6.2017
	(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)	**104,054**	140,706
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,036,617,392**	1,029,642,378
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**2,277,295**	6,153,180
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,038,894,687**	1,035,795,558

9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, total addition to property, plant and equipment were approximately HK$267,750,000 (for the six months ended 30 June 2017: approximately HK$367,262,000), which mainly included addition of machinery of approximately HK$45,301,000 (for the six months ended 30 June 2017: approximately HK$231,200,000) and addition to construction in progress of approximately HK$207,239,000 (for the six months ended 30 June 2017: approximately HK$122,402,000).

10. TRADE AND BILLS RECEIVABLES

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

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

	30.6.2018 HK$'000 (unaudited)	31.12.2017 HK$'000 (audited)
Trade receivables		
0 – 90 days	**491,605**	563,614
91 – 180 days	**25,445**	51,330
Over 180 days	**22,548**	24,145
	539,598	639,089
Bills receivables		
0 – 90 days	**1,842**	9,270
	541,440	648,359

The following is the movement in the allowance for impairment in respect of trade receivables during the six months ended 30 June 2018:

	HK$'000 (unaudited)
Balance at 1 January 2018 *(Note 3.2.2)**	**17,444**
Net remeasurement of loss allowance	**(4,108)**
Balance at 30 June 2018	**13,336**

* The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated.

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

	30.6.2018 HK$'000 (unaudited)	31.12.2017 HK$'000 (audited)
Related companies		
A related company*	**5,621**	3,480
Other related companies#	**15,399**	19,314
	21,020	22,794

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

\# The related companies are fellow subsidiaries of the non-controlling shareholder who has significant influence over a subsidiary of the Group.

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

	30.6.2018 HK$'000 (unaudited)	31.12.2017 HK$'000 (audited)
0 – 90 days	**21,020**	20,731
91 – 180 days	**–**	1,900
Over 180 days	**–**	163
	21,020	22,794

11. TRADE AND BILLS PAYABLES

Trade payables

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

	30.6.2018 HK$'000 (unaudited)	31.12.2017 HK$'000 (audited)
0 – 90 days	**168,810**	156,373
Over 90 days	**15,977**	25,243
	184,787	181,616

As at 30 June 2018, included in the Group's trade payables balance is an amount due to a joint venture of HK$12,581,000 (as at 31 December 2017: HK$12,899,000). 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. Out of this balance, HK$8,583,000 are aged within 90 days and HK$3,998,000 are aged over 90 days (as at 31 December 2017: HK$12,899,000 are aged within 90 days and nil are aged over 90 days) at the end of the reporting period.

Bills payables

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

	30.6.2018 HK$'000 (unaudited)	31.12.2017 HK$'000 (audited)
0 – 90 days	**188,159**	195,430
91 – 180 days	**94,929**	89,745
	283,088	285,175

12. BANK BORROWINGS

	30.6.2018	31.12.2017
	HK$'000	HK$'000
	(unaudited)	(audited)
Unsecured syndicated loan	**1,187,435**	965,257
Unsecured bank borrowings	**383,297**	275,005
	1,570,732	1,240,262
Carrying amount repayable*		
Within one year	**470,910**	262,291
More than one year, but not exceeding two years	**212,737**	188,504
More than two years, but not more than five years	**887,085**	789,467
	1,570,732	1,240,262
Less: Amounts due within one year or contain a repayment on demand clause shown under current liabilities	**(470,910)**	(262,486)
Amounts shown under non-current liabilities	**1,099,822**	977,776
Carrying amount of bank borrowings that are repayable within one year and contain a repayment on demand clause	**383,297**	274,810
Carrying amount of bank borrowings that are repayable more than one year but contain a repayment on demand clause	**–**	195
	383,297	275,005

* 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.

As at 30 June 2018 and 31 December 2017, the unsecured syndicated loan was guaranteed by group companies and the loan will be repayable by installments from 13 May 2019 to 13 May 2021 and with an interest rate at Hong Kong Interbank Offered Rate ("**HIBOR**") plus 2.2% per annum for HK$ loan tranche and London Interbank Offered Rate plus 2.2% per annum for US$ loan tranche.

The unsecured bank borrowings were guaranteed by group companies as at 30 June 2018 and 31 December 2017.

13. SHARE CAPITAL

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

	Number of shares	**Amount**	
		HK$	HK$'000
Ordinary shares of HK$0.01 each			
Authorised:			
At 1 January 2017, 30 June 2017, 1 January 2018 and 30 June 2018	50,000,000,000	500,000,000	500,000
Issued and fully paid:			
At 1 January 2017	1,028,781,000	10,287,810	10,288
Issue of shares upon exercise of share options (Note a)	3,647,000	36,470	36
At 30 June 2017 (unaudited)	1,032,428,000	10,324,280	10,324
At 1 January 2018	**1,036,508,000**	**10,365,080**	**10,365**
Issue of shares upon exercise of share options (Note b)	**120,000**	**1,200**	**1**
At 30 June 2018 (unaudited)	**1,036,628,000**	**10,366,280**	**10,366**

Notes:

(a) In January, March, May and June 2017, the Company issued 347,000, 150,000, 1,690,000 and 1,460,000 shares respectively upon the exercise of share options by certain employees.

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The worldwide economy maintained a moderate pace of growth in the first six months of 2018, prompting central banks in various key economies to continue tightening their monetary policies by raising interest rates. Nevertheless, amid with the ongoing uncertainty over international trade and long term global economic and financial trends, such measures were relatively modest in nature.

In the PRC, gross domestic product ("**GDP**") growth averaged 6.8% in the first half of 2018, but the ongoing economic deleveraging resulted in a further slowdown in investment growth. The first six months of year 2018 continued to be challenging for most of the Chinese export companies, with Renminbi ("**RMB**") staging its sharpest one month rally of approximately 3.5% against the United States Dollars ("**US$**") since 1980 in January 2018. RMB has then maintained at a relatively high level for most of the six months period in the first half of 2018. Compared to the corresponding period in 2017, the monthly average exchange rate of RMB against US$ during the Reporting Period was approximately 8% higher. The textile and apparel sector was no exception and various industry players had reported declining profits and profit margins. On the other hand, during the Reporting Period, pressure from our upstream suppliers remained intense due to the further increase in the purchase costs for raw materials, which were mostly commodity in nature.

In view of the further decrease in the unemployment rate in the United States of America (the "**U.S.**") from approximately 4.1% in December 2017 to approximately 4.0% in June 2018, the market is predicting at least two more hikes on the federal funds rate in the U.S. in the second half of 2018. The One-Month London Interbank Offered Rate during the Reporting Period almost doubled as compared to that for the six months ended 30 June 2017. Alongside with the ongoing expansion of the Group, the related increase in bank borrowings and associated finance costs also squeezed our profitability.

Albeit the strong foundation in terms of quality, supply chain and innovation, the textile and apparel industry in the PRC also faced various operational challenges including an aging population, high wages, intensified environmental regulations and restrained resource supply. The overall increase in costs spent on human resources and the stringent environmental rules and regulations further added the dead weight on the corporate margins. Throughout the production process, strict controls had been put into place by the PRC government on the emission of exhaust gas and the treatment capability of polluted wastewater. These all added to the corporate sustainability in the textile and apparel industry in the PRC.

Dedication to progressive growth

In looking for revenue growth, we continued cross-selling our different primary products, by leveraging on our unique position as a one-stop solutions supplier, along with our profound relationship with customers, brands and business partners. "Built on innovation and technology" continued to be the foundation and vision of the Group in business management as well as new product development, which in turn allowed the Group to capture more opportunities with the existing customers as well as new business with potential clients.

During this period of economic turmoil, the management had been spending its focus on various cost control measures and efficiency enhancement. We had tried to streamline the internal workflows, reduce redundancies and introduce to the possible extent automation into our existing manufacturing processes. In light of the current challenging business environment, Best Pacific is dedicated to its long term development and is also ready to convert any upcoming challenges into driving force to seize the massive potential in the global sportswear and apparel markets.

The comparative advantages of lower manufacturing costs in developing countries such as Vietnam, Cambodia, Sri Lanka, Bangladesh, etc, will continue to allow these countries to come into play and seize more market share and opportunities from the global apparel market. In view of such and the current mounting trade tension between the U.S. and the PRC, the Group will continue its internationalisation plan by further expanding or ramping up manufacturing capacities in Vietnam and Sri Lanka.

FINANCIAL PERFORMANCE

During the Reporting Period, the Group sustained continuous growth in all of the three business segments and achieved an overall revenue growth of approximately 7.0% to approximately HK$1,351.3 million, as compared to approximately HK$1,262.5 million in the corresponding period of 2017. Driven by the sales growth in the sportswear and apparel segments, revenue from sales of elastic fabric increased approximately 7.1% to approximately HK$851.7 million during the Reporting Period. The Group also reinforced its product bundling strategy and the revenue from sales of elastic webbing and sales of lace increased by approximately 5.0% and 25.6%, to approximately HK$446.2 million and HK$53.4 million, respectively, during the Reporting Period.

As stated in the section headed "BUSINESS REVIEW" above, the strong RMB throughout most time of the first half of 2018 had put on heavy weight on the Group's profitability during the Reporting Period. Together with the increasing pressure from customers demanding shorter production lead time, higher environmental costs due to the stricter environmental regulations as imposed by governments and the higher finance costs and initial set up costs alongside with the Group's continuous investments in various overseas locations, the Group recorded a drop in its gross and net profit margins.

The Group's gross profit for the Reporting Period amounted to approximately HK$323.0 million, representing a decrease of approximately 10.9% as compared to the six months ended 30 June 2017. Gross profit margin decreased by approximately 4.8 percentage points to approximately 23.9%, as compared to the six months ended 30 June 2017.

Net profit for the Reporting Period amounted to approximately HK$102.8 million, representing a decrease of approximately 26.9% as compared to approximately HK$140.7 million for the six months ended 30 June 2017. The Group recorded a lower net profit margin of approximately 7.6% for the Reporting Period, representing a decline of approximately 3.5 percentage points, as compared to approximately 11.1% for the six months ended 30 June 2017.

Basic earnings per share was approximately HK10.04 cents for the Reporting Period, representing a decrease of approximately 26.6% from approximately HK13.67 cents for the six months ended 30 June 2017.

FINANCIAL REVIEW

Revenue

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

For the six months ended 30 June 2018, revenue amounted to approximately HK$1,351.3 million, representing an increase of approximately HK$88.8 million, or approximately 7.0%, from approximately HK$1,262.5 million for the six months ended 30 June 2017. The increase in overall revenue during the Reporting Period was mainly attributable to the increase in the volume of products sold, as a result of the Group's dedicated efforts in developing its lingerie businesses as well as the continual expansion into the sportswear and apparel materials segments.

A comparison of the Group's revenue for the six months ended 30 June 2018 and the six months ended 30 June 2017 by product categories is as follows:

	Six months ended 30 June					
	2018		2017		Change	
	Revenue (HK$'000)	**% of Revenue**	Revenue (HK$'000)	% of Revenue	(HK$'000)	%
Elastic fabric	**851,746**	**63.0**	795,127	63.0	56,619	7.1
Elastic webbing	**446,156**	**33.0**	424,822	33.6	21,334	5.0
Lace	**53,440**	**4.0**	42,549	3.4	10,891	25.6
Total	**1,351,342**	**100.0**	1,262,498	100.0	88,844	7.0

For the six months ended 30 June 2018, revenue from sales of elastic fabric amounted to approximately HK$851.7 million, representing an increase of approximately HK$56.6 million, or approximately 7.1%, as compared to the six months ended 30 June 2017. The growth in revenue was mainly driven by the Group's continued expansion into the sportswear and apparel materials market, by leveraging on its high product quality, strong innovation and research and development capabilities, and by fostering relationships with different sportswear and apparel brands, which were represented by a period-on-period growth of approximately 21.6% in sales revenue of sportswear and apparel fabric materials.

Revenue from sales of elastic webbing amounted to approximately HK$446.2 million, representing an increase of approximately HK$21.3 million, or approximately 5.0%, as compared to the six months ended 30 June 2017. The volume sold during the Reporting Period was relatively stable as compared to the corresponding period in 2017 and the growth in revenue was mainly driven by an increase in average selling price.

Revenue from sales of lace increased from approximately HK$42.6 million for the six months ended 30 June 2017 to approximately HK$53.4 million for the six months ended 30 June 2018. The Group is dedicated to cross selling its different primary products, The period-on-period increase of approximately 25.6% was mainly due to the increase in sales volume of lace in the first half of 2018, as compared to the corresponding period in 2017.

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					
	2018		2017		Change	
	(HK$'000)	**%**	(HK$'000)	%	(HK$'000)	%
Raw materials	**522,330**	**50.8**	461,411	51.3	60,919	13.2
Manufacturing overheads	**386,903**	**37.6**	326,283	36.3	60,620	18.6
Direct labour	**113,067**	**11.0**	106,596	11.8	6,471	6.1
Others	**6,027**	**0.6**	5,550	0.6	477	8.6
Total	**1,028,327**	**100.0**	899,840	100.0	128,487	14.3

The Group's cost of sales for the six months ended 30 June 2018 amounted to approximately HK$1,028.3 million, representing an increase of approximately HK$128.5 million, or 14.3%, as compared to the six months ended 30 June 2017. The increase in our cost of sales was primarily due to (i) the increase in overall sales volume; (ii) the overall increment in raw material prices; (iii) the increase in overall manufacturing overheads driven by the Group's continued business expansion as well as higher production costs to cope with the more stringent environmental rules and regulations; and (iv) the overall increase in costs due to RMB appreciation for most time during the Reporting Period.

Cost of sales – by product category

	Six months ended 30 June					
	2018		2017		Change	
	(HK$'000)	**%**	(HK$'000)	%	(HK$'000)	%
Elastic fabric	**690,938**	**67.2**	576,559	64.1	114,379	19.8
Elastic webbing	**309,666**	**30.1**	300,479	33.4	9,187	3.1
Lace	**27,723**	**2.7**	22,802	2.5	4,921	21.6
Total	**1,028,327**	**100.0**	899,840	100.0	128,487	14.3

The cost of sales by product category as a percentage of the total cost of sales for the six months ended 30 June 2018 remained relatively stable as compared to the six months ended 30 June 2017.

Gross profit, gross profit margin and net profit margin

	Six months ended 30 June			
	2018		2017	
	Gross profit (HK$'000)	**Gross profit margin %**	Gross profit (HK$'000)	Gross profit margin %
Elastic fabric	**160,808**	**18.9**	218,568	27.5
Elastic webbing	**136,490**	**30.6**	124,343	29.3
Lace	**25,717**	**48.1**	19,747	46.4
	323,015	**23.9**	362,658	28.7

The overall gross profit decreased from approximately HK$362.7 million for the six months ended 30 June 2017 to approximately HK$323.0 million for the six months ended 30 June 2018. The Group's overall gross profit margin for the six months ended 30 June 2018 decreased by 4.8 percentage points to approximately 23.9%, as compared to approximately 28.7% for the six months ended 30 June 2017. The decline in gross profit margin was mainly due to (i) a lower-than-expected revenue from sales of elastic fabric; (ii) the overall higher raw material costs and manufacturing overheads; and (iii) the increase in overall costs due to RMB appreciation for most of the time during the Reporting Period.

Net profit for the six months ended 30 June 2018 amounted to approximately HK$102.8 million, representing a decrease of approximately 26.9% as compared to approximately HK$140.7 million for the six months ended 30 June 2017. The Group recorded a lower net profit margin of approximately 7.6% for the six months ended 30 June 2018, representing a decline of 3.5 percentage points, as compared to the same period of 2017. The overall decrease in net profit margin for the Reporting Period was mainly due to (i) a lower gross profit margin attained; (ii) the start-up costs of the operations in Sri Lanka; (iii) the ramp-up costs of the operation in Vietnam; (iv) the increase in finance costs; and (v) the increase in costs or losses due to RMB appreciation for most of the time during the Reporting Period.

Other income

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

	Six months ended 30 June	
	2018 (HK$'000)	2017 (HK$'000)
Government grants	**6,542**	9,950
Proceeds from sales of scrap materials	**3,389**	6,572
Bank interest income	**3,339**	3,201
Others	**4,216**	1,949
Total	**17,486**	21,672

The decrease in other income by approximately 19.3%, from approximately HK$21.7 million for the six months ended 30 June 2017 to approximately HK$17.5 million for the six months ended 30 June 2018, was mainly driven by the aggregate effect of the decreases in government grants and proceeds from sales of scrap materials.

Other gains and losses

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

For the six months ended 30 June 2018, the net remeasurement of loss allowance for trade receivables was approximately HK$4.1 million (for the six months ended 30 June 2017: nil), the net foreign exchange loss was approximately HK$0.6 million (for the six months end 30 June 2017: approximately HK$8.2 million) and the change in fair value in derivative financial instruments was approximately HK$1.7 million (for the six months end 30 June 2017: approximately HK$0.6 million).

Selling and distribution expenses

Selling and distribution expenses primarily consist of employee benefit expenses, transportation, marketing and promotional expenses and other selling and distribution expenses. For the six months ended 30 June 2017 and 2018, the Group's selling and distribution expenses represented approximately 5.7% and approximately 5.2% of its total revenue, respectively. The decrease in selling and distribution expenses was mainly due to the execution of cost controls and efficiency enhancement during the Reporting Period.

Administrative expenses

Administrative expenses primarily consist of employee benefit expenses, depreciation and amortisation, motor vehicle expenses, bank charges and other administrative expenses. For the six months ended 30 June 2017 and 2018, the Group's administrative expenses represented approximately 6.6% and approximately 6.5% of its total revenue, respectively. The equity-settled share-based compensation included in employee benefit expenses for the six months ended 30 June 2018 was nil (for the six months ended 30 June 2017: approximately HK$1.7 million).

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 2017 and 2018, our research and development costs represented approximately 3.0% and approximately 3.3% of the revenue, respectively.

Finance costs

The Group's finance costs mainly represent interest expenses for bank borrowings. The finance costs increased by approximately 76.6% from approximately HK$15.9 million for the six months ended 30 June 2017 to approximately HK$28.1 million for the six months ended 30 June 2018. The increase in finance costs was primarily due to the increase in overall market interest rate and the increase in average balance of bank borrowings as a result of continuous expansion in the Group's production scale.

Income tax expense

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the six months ended 30 June 2017 and 2018.

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 2017 and 2018, unless there is any preferential tax treatment applicable.

Dongguan BPT, a subsidiary of the Company, has obtained the qualification as a high and new technology enterprise since 2010, which has been renewed for an additional three years from the financial year ended 31 December 2016. Hence, Dongguan BPT is subject to the preferential tax treatment and the applicable tax rate for each of the six months ended 30 June 2017 and 2018 is 15%. During the year ended 31 December 2016, Dongguan NHE, another subsidiary of the Company, was also qualified as a high and new technology enterprise for three years from the financial year ended 31 December 2016. Dongguan NHE is therefore also subject to the preferential tax treatment and the applicable tax rate for each of the six months ended 30 June 2017 and 2018 is 15%.

Pursuant to the relevant Vietnam Enterprises Income Tax rules and regulations, the applicable tax rate for the subsidiary operating in Vietnam is 20%. The subsidiary in Vietnam is eligible for tax holidays 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.

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

The effective tax rate decreased from approximately 16.5% for the six months ended 30 June 2017 to approximately 13.0% for the six months ended 30 June 2018, which was mainly due to more tax refund being received by the PRC subsidiaries during the six months ended 30 June 2018.

Liquidity, financial resources and bank borrowings

As at 30 June 2018, net working capital (calculated as current assets less current liabilities) was approximately HK$761.9 million, representing an increase of approximately HK$17.6 million as compared to approximately HK$744.3 million as at 31 December 2017. The current ratio (calculated as current assets/current liabilities) is 1.7 times as at 30 June 2018, as compared to 1.8 times, as at 31 December 2017.

For the six months ended 30 June 2018, net cash generated from operating activities was approximately HK$300.6 million, as compared to approximately HK$35.4 million for the six months ended 30 June 2017, which was mainly due to better management of trade receivables and payables. Net cash used in investing activities amounted to approximately HK$265.0 million for the six months ended 30 June 2018, as compared to approximately HK$643.2 million for the six months ended 30 June 2017. 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 2018.

During the six months ended 30 June 2018, net cash from financing activities amounted to approximately HK$283.2 million, as compared to net cash from financing activities of approximately HK$371.0 million for the six months ended 30 June 2017. The cash from financing activities for the six months ended 30 June 2018 was mainly from the new syndicated loan and bank borrowings raised.

As at 30 June 2018, the Group's gearing ratio was approximately 67.2% (as at 31 December 2017: approximately 53.9%), which was calculated on the basis of the amount of total bank borrowings as a percentage of total equity. Such increase was mainly due to an increase in bank borrowings to finance the continuous expansion of the Group. The Group was in a net debt position of approximately HK$1,012.1 million, as compared to approximately HK$997.2 million as at 31 December 2017.

Working capital management

	For the six months/ year ended			
	30 June 2018 (days)	31 December 2017 (days)	Change (days)	%
Trade and bills receivables turnover days	**79.7**	79.0	0.7	0.9
Trade and bills payables turnover days	**82.3**	81.5	0.8	1.0
Inventory turnover days	**125.2**	108.2	17.0	15.7

The trade and bills receivables turnover days remained relatively stable for the year ended 31 December 2017 and the six months ended 30 June 2018.

The trade and bills payables turnover days remained relatively stable for the year ended 31 December 2017 and the six months ended 30 June 2018.

The increase in inventory turnover days from 108.2 days for the year ended 31 December 2017 to 125.2 days for the six months ended 30 June 2018 was primarily attributable to the fact that more raw materials being purchased by the Group to cope with the rising raw material prices as well as the shorter production time as demanded by customers, in which more work-in-progress inventories were prepared.

Capital expenditures

For the six months ended 30 June 2018, total addition to property, plant and equipment amounted to approximately HK$267.8 million (for the six months ended 30 June 2017: approximately HK$367.3 million), and was mainly attributed to the investment in machinery of approximately HK$45.3 million (for the six months ended 30 June 2017: approximately HK$231.2 million) and the addition to construction in progress of approximately HK$207.2 million (for the six months ended 30 June 2017: approximately HK$122.4 million), in order to cope with the Group's overall business expansion. The decrease in investment in machinery was mainly due to the Group's overall control on production capacities.

Pledged assets

As at 30 June 2018, the Group pledged certain bank deposits to secure the bills payables issued by the Group. As at 31 December 2017, in addition to the pledged bank deposits, the Group pledged certain equipment to secure the obligations under finance leases granted to the Group. These obligations under finance leases were fully settled in the six months ended 30 June 2018.

The carrying amounts of the assets pledged are as follows:

	As at	
	30 June 2018 (HK$'000)	31 December 2017 (HK$'000)
Pledged bank deposits	**52,265**	54,623
Equipment	**–**	34,019
Total	**52,265**	88,642

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

Contingent liabilities

As at 30 June 2018, the Group did not have any significant contingent liabilities.

Employees and remuneration policies

As at 30 June 2018, the Group employed a total of approximately 5,804 full-time employees (as at 31 December 2017: 6,409). The decrease in the number of employees was mainly due to the increase in operating efficiency of the Group. There was no significant change in the Group's remuneration policy, and the Group will continue to provide regular training and competitive remuneration packages to its staff. The Group's remuneration packages include salary, bonuses, allowances and retirement benefits based on employee's performance, skills and knowledge. The Group also provides additional benefits to its employees that include subsidised accommodation, meals, accident and medical insurance and share options granted to eligible employees under the share option schemes of the Company.

FUTURE STRATEGIES AND PROSPECTS

Notwithstanding the various challenges faced by the Group in the first half of 2018, we found several signs of relief in various aspects in the second half of 2018 and the Group is also relatively optimistic about its future development.

The recent RMB depreciation since end of April 2018 had certainly helped the PRC domestic manufacturing sector, with the currency depreciated by approximately 3% in a single month in June 2018. RMB further depreciated to approximately 1.1415 against HK$ in mid-August 2018, which represented an approximately 4.5% lower rate as comparing to the exchange rate in December 2017. This recent currency depreciation had helped reducing pressure on our margins.

The general economic data and forecast published by governmental bodies and research institutions had showed some signs of improvement in the U.S. and PRC economies but a slight fall back in the Europe economy. Looking into the U.S. market, as per the publication of the U.S. Bureau of Economic Analysis, the U.S. GDP annual growth rate reached approximately 2.9% in the second quarter of 2018, comparing to the rates of approximately 2.1% and 2.5% in the second and fourth quarters of 2017, respectively. The momentum of economic development appeared to be gradually picking up and the unemployment rate had come closer to a natural rate. According to the data published by TD Economics in June 2018, the U.S. GDP annual growth rates for 2018 and 2019 are expected to reach approximately 3.0% and 2.8%, respectively. As to the PRC economy, the General Administration of Customs also reported a period-on-period increase of approximately 3.24% on the export of textile and garment products in the first half of 2018.

However, the current US-China trade friction has resulted in ripples in the global trade environment and the scope of punitive tariffs by the U.S. has cast doubts and shadow over the future outlook of the world's economy. The tension is also expected to lead to more foreign direct investment in developing countries outside the PRC. Under this rapidly evolving operating environment, we believe that our relatively aggressive expansion plan will reinforce Best Pacific's position as the world's leading textile supplier. Our competitive advantages such as our trusted brand, large customer base and extensive manufacturing network, including China, Vietnam and Sri Lanka, provide a solid foundation for future growth of the Group.

Our production plant in Vietnam had officially started manufacturing in the second half of 2017 and the ramp-up since then was according to the management expectation, in which the sales of elastic fabric and elastic webbing had already accounted for approximately 10% to 15% of the production volume of the Group in the first half in 2018. The management expects the contribution from the Group's Vietnam operation to further increase upon completion of the second phase expansion, which is expected to commence operation in late 2018 or early 2019. As at 30 June 2018, our annual designed production capacities of elastic fabric, elastic webbing and lace were approximately 135.8 million meters, 1,744.6 million meters and 24.6 million meters, respectively.

The acquisitions of our joint ventures (the "**JVs**") in Sri Lanka have been completed on 6 November 2017 and 1 August 2018, respectively. With the upsurge of the sportswear and apparel segments and the potential for further penetration into the lingerie market, the establishment of our JVs in Sri Lanka will help Best Pacific further penetrate the existing lingerie and sportswear and apparel markets. The Sri Lankan JV partners are both world's largest and most recognised apparel and textile manufacturers in South Asia. The management believes that the strategic partnerships with the JV partners will allow the Group to leverage on their well-established presence, experience and market share in Sri Lanka and in the apparel industry, which will facilitate the future development of Best Pacific.

Considering the above-mentioned favourable currency movement, steady growth of the global economy and the implementation of our international expansion plans, we are optimistic about Best Pacific's prospects going forward. Under our progressive growth strategy, we will continue to put emphasis on our international footprint as well as one-stop solutions strategy. We will keep moving forward by actively engaging various stakeholders, driving product innovation, and upholding high operational and compliance standards as we deliver excellence as a key textile materials provider.

Best Pacific is committed to and confident in delivering a satisfactory growth and return to its shareholders 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 2018.

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 2018 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 2018 have been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA, by Deloitte Touche Tohmatsu, certified public accountants in Hong Kong, and the Audit Committee of the Company has no disagreement.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2018 (for the six months ended 30 June 2017: nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is of the view that throughout the six months ended 30 June 2018, 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, 30 August 2018

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*