# Sterling Group Holdings Limited
# 美臻集團控股有限公司*

*(incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 1825)**

## ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2020

- Revenue for the year ended 31 March 2020 decreased by approximately 7.9% year-to-year to approximately HK$590,873,000, as compared with revenue of approximately HK$641,733,000 for the year ended 31 March 2019.
- Loss of the Group for the year ended 31 March 2020 amounted to approximately HK$58,638,000 (2019: loss approximately HK$22,670,000).
- Basic loss per Share for the year ended 31 March 2020 was 7.33 HK cents as compared with basic loss per Share of 3.29 HK cents for the year ended 31 March 2019.
- The Directors of the Company do not recommend payment of any final dividend to shareholders of the Company for the year ended 31 March 2020.

The board (the "Board") of directors (the "Directors") of Sterling Group Holdings Limited (the "Company") is pleased to announce the unaudited consolidated annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 March 2020, together with the comparative figures for the year ended 31 March 2019 as follows.

**UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*FOR THE YEAR ENDED 31 MARCH 2020*

| | *Notes* | **2020**<br>***HK$'000***<br>**(Unaudited)** | 2019<br>*HK$'000*<br>(Audited) |
|---|---|---|---|
| Revenue | 5 | **590,873** | 641,733 |
| Cost of sales | | **(479,501)** | (548,834) |
| **Gross profit** | | **111,372** | 92,899 |
| Other revenue | 6 | **3,830** | 4,807 |
| Other gains and losses, net | 7 | **(56,565)** | 398 |
| Selling and distribution costs | | **(37,923)** | (41,048) |
| General and administrative expenses | | **(70,280)** | (62,257) |
| Listing expenses | | **–** | (8,937) |
| Finance costs | | **(9,905)** | (7,984) |
| **Loss before income tax expense** | 8 | **(59,471)** | (22,122) |
| Income tax credit/(expense) | 9 | **833** | (548) |
| Loss for the year | | **(58,638)** | (22,670) |
| **Other comprehensive income, net of tax** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange difference arising on translation of foreign operations | | **(72)** | 993 |
| Remeasurement (loss)/gain on defined benefit plan for the year | | **(142)** | 378 |
| Other comprehensive (expense)/income for the year | | **(214)** | 1,371 |
| Total comprehensive expense for the year | | **(58,852)** | (21,299) |
| **Loss and total comprehensive expense for the year attributable to owners of the Company** | | **(58,852)** | (21,299) |
| | | ***HK cents*** | *HK cents* |
| **LOSS PER SHARE** | | | |
| **– Basic and diluted** | 10 | **(7.33)** | (3.29) |

**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*AS AT 31 MARCH 2020*

| | *Notes* | **2020** <br> ***HK$'000*** <br> **(Unaudited)** | 2019 <br> *HK$'000* <br> (Audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Prepaid insurance premium | | **7,968** | 8,358 |
| Property, plant and equipment | | **53,376** | 49,738 |
| Intangible assets | | **8,463** | – |
| Convertible promissory note | | **3,214** | – |
| Right-of-use assets | 14 | **37,538** | – |
| Payment for leasehold land held for own use under operating lease | | **–** | 23,329 |
| Deferred tax assets | | **1,719** | 321 |
| Goodwill | | **18,148** | 17,803 |
| **Total non-current assets** | | **130,426** | 99,549 |
| **Current assets** | | | |
| Inventories | | **34,659** | 37,094 |
| Trade and other receivables | 12 | **158,731** | 169,698 |
| Tax recoverable | | **1,078** | 3,605 |
| Cash and cash equivalents | | **47,836** | 75,687 |
| **Total current assets** | | **242,304** | 286,084 |
| **Total assets** | | **372,730** | 385,633 |
| **Current liabilities** | | | |
| Trade, bills and other payables | 13 | **65,609** | 77,305 |
| Amounts due to related parties | | **1,113** | – |
| Bank borrowings | | **231,439** | 190,443 |
| Lease liabilities | 14 | **8,626** | – |
| Income tax payable | | **–** | 268 |
| **Total current liabilities** | | **306,787** | 268,016 |
| **Net current (liabilities)/assets** | | **(64,483)** | 18,068 |

| | Notes | **2020** | 2019 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| | | **(Unaudited)** | (Audited) |
| **Non-current liabilities** | | | |
| Defined benefit obligation | | **2,355** | 2,073 |
| Lease liabilities | 14 | **6,896** | – |
| **Total non-current liabilities** | | **9,251** | 2,073 |
| **NET ASSETS** | | **56,692** | 115,544 |
| Share capital | | **8,000** | 8,000 |
| Share premium | | **66,541** | 66,541 |
| Reserves | | **(17,849)** | 41,003 |
| **TOTAL EQUITY** | | **56,692** | 115,544 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION AND REORGANISATION

### (a) General information

Sterling Group Holdings Limited ("The Company") was incorporated in the Cayman Islands on 6 June 2017, as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on 19 October 2018.

The registered office of the Company is located at the offices of Tricor Services (Cayman Islands) Limited, Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KYI-1103, Cayman Islands. Its principal place of business is 18-20/F., Win Plaza, 9 Sheung Hei Street, San Po Kong, Kowloon, Hong Kong. The ultimate controlling shareholders are Moonlight Global Limited and Rainbow Galaxy Limited.

The Company is an investment holding company and the Group is principally engaged in the provision of manufacturing and trading of apparel products and licensing of trademark in the markets of the United States of America ("USA"), Italy and United Kingdom ("UK").

### (b) Reorganisation

Pursuant to a group reorganisation which was completed on 21 June 2018 as detailed in the section headed "History, Reorganisation and Corporate Structure" in the prospectus of the Company dated 29 September 2018 (the "Prospectus"), the Company became the holding company of the subsidiaries comprising the Group.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### (a) Adoption of new/revised HKFRSs – effective 1 April 2019

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

- HKFRS 16, Leases
- HK(IFRIC)-Int 23, Uncertainty over Income Tax Treatments
- Amendments to HKFRS 9, Prepayment Features and Negative Compensation
- Amendments to HKAS 19, Plan Amendment, Curtailment or Settlement
- Amendments to HKAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 included in Annual Improvements to HKFRSs 2015-2017 Cycle

The impact of the adoption of HKFRS 16 Leases have been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

*(i)* ***Impact of the adoption of HKFRS 16***

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (iv) of this note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application. The comparative information presented in 2019 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following tables summarised the impact of transition to HKFRS 16 on consolidated statement of financial position as of 31 March 2019 to that of 1 April 2019 as follows (increase/(decrease)):

**Consolidated statement of financial position as at 1 April 2019**

| | *HK$'000* (Unaudited) |
|---|---|
| Right-of-use assets | 45,975 |
| Less: Prepaid lease payment | (23,329) |
| Total assets | 22,646 |
| Lease liabilities (non-current) | 14,537 |
| Lease liabilities (current) | 8,743 |
| Total liabilities | 23,280 |

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 as at 31 March 2019 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 April 2019:

**Reconciliation of operating lease commitments to lease liabilities**

| | *HK$'000* |
|---|---|
| | (Unaudited) |
| Operating lease commitments as at 31 March 2019 | 33,240 |
| Less: Short term leases for which lease terms end within 31 March 2020 | (286) |
| | 32,954 |
| Discounted using the lessee's incremental borrowing rate of at the date of initial application | 22,646 |
| Add: Reclassification of payment for leasehold land held for own use under operating lease | 23,329 |
| Right-of-use assets recognised as at 1 April 2019 | 45,975 |

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 April 2019 is 5.33%.

***(ii) The new definition of a lease***

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected separate non-lease components and allocate the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

***(iii) Accounting as a lessee***

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the date of adoption of HKFRS 16, i.e. 1 April 2019.

*Right-of-use asset*

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-of-use asset at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

*Lease liability*

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-of-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

***(iv) Transition***

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised the right-of-use asset at the amount equal to the lease liability, adjusted by the amount of any prepayments or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 March 2019. The comparative information presented in 2019 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 April 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 April 2019.

The Group has elected to recognise all the right-of-use assets at 1 April 2019 for leases previously classified operating leases under HKAS 17 as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 April 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedient applied a single discount rate to a portfolio of leases with reasonably similar characteristics; and applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 April 2019) and accounted for those leases as short-term leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease; and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int 4.

## 3. BASIS OF PREPARATION

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance which concern the preparation of consolidated financial statements. In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

### (b) Basis of measurement and going concern assumption

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

The Group had incurred losses after tax of approximately HK$58,638,000 (2019: losses after tax of approximately HK$22,670,000) and net current liabilities of approximately HK$64,483,000 (2019: net current assets of approximately HK$18,068,000) for the year ended 31 March 2020. As at 31 March 2020, the Group's liabilities included borrowings with principal amount of approximately HK$231,439,000 (2019: HK$190,443,000) which is repayable within 27 months from 31 March 2020 and the Group had cash and cash equivalents of approximately HK$47,836,000 (2019: HK$75,687,000) and net assets of approximately HK$56,692,000 (2019: HK$115,544,000). These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore that, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding the above conditions, the consolidated financial statements were prepared based on the assumption that the Group can be operated as a going concern after taking into consideration of the following plans and measures:

(i) the Group expects to generate positive operating cash flows for the next twelve months;

(ii) Subsequent to the end of the reporting period, the ultimate controlling shareholders provided additional funds of HK$34,000,000 to the Group for daily operation purpose, and the ultimate controlling shareholders have also undertaken to provide continued financial support to enable the Group to meet its liabilities and to pay financial obligations to third parties as and when they fall due so that the Group can continue as a going concern and carry on its business without a significant curtailment of operations for the twelve months from the date of approving the consolidated financial statements;

(iii) the directors will strengthen and implement measures aiming at improving the working capital and cash flows of the Group, including closely monitoring the general administrative expenses and operating costs;

(iv) the directors will consider to improve the financial position of the Group and to enlarge the capital base of the Company by conducting fund raising exercises such as share placement or loan capitalisation when necessary;

(v) At 31 March 2020, the Group had unutilised banking facilities of approximately HK$155,041,000. Subsequent to the end of the reporting period, the Group has been granted additional banking facilities of HK$15,000,000 with the additional pledge of office properties from related parties; and

(vi) Given the Group maintained strong business relationship with its bankers and based on past experiences, the directors expect that the Group is able to renew all the banking facilities when they expire.

The directors have carried out a detailed review of the cash flow forecast of the Group for the next twelve months from the reporting date taking into account the impact of above measures, the directors of the Company believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements as and when they fall due in the next twelve months from the reporting date, and accordingly, are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amount, to provide for future liabilities which might arise and to reclassify non-current assets and liabilities to current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

The Group intends to pursue strategic acquisitions that can enable the Company to capture new business opportunities and to strengthen the revenue and profit fundamentals. The Company has been actively identifying projects with growth potential for acquisitions or investments and has engaged in discussions with various parties for such acquisitions or investments.

**(c) Functional and presentation currency**

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

## 4. SEGMENT INFORMATION

**Operating segments**

The Group was principally engaged in the manufacturing and trading of apparel products and licensing of trademarks. Information reported to the Group's chief operating decision maker, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole, as the Group's resources are integrated and no discrete operating segment is available. The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resources allocation and performance assessment, the Group has presented the following four reportable segments. No operating segments have been aggregated to form the following reportable segments.

– Manufacturing and trading of apparel products.

– Licensing of trademark: the management and licensing of trademark for royalty income.

The Group's operations are mainly located in Hong Kong, the PRC and Sri Lanka.

**Segment results, assets and liabilities**

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets, current tax recoverable, cash and cash equivalents and other corporate assets. Segment liabilities include trade and other payables, lease liabilities and bank borrowings with the exception of current tax payable, deferred tax liabilities and other corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments.

The measure used for reporting segment profit or loss is "adjusted EBITDA", i.e. "adjusted earnings before interest, taxes, depreciation and impairment loss on non-current assets", where "interest" is regarded as including investment income. To arrive at adjusted EBITDA, the Group's earnings/losses are further adjusted for items not specifically attributed to individual segments, such as other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expenses from cash balances and borrowings managed directly by the segments, depreciation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segments sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 March 2020 and 2019 is set out below:

| | **Manufacturing and trading of apparel products** | | **Licensing of trademark** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) | **(Unaudited)** | (Audited) | **(Unaudited)** | (Audited) |
| Revenue from external customers | **590,034** | 641,733 | **839** | – | **590,873** | 641,733 |
| Inter-segment revenue | **–** | – | **–** | – | **–** | – |
| **Reportable segment revenue** | **590,034** | 641,733 | **839** | – | **590,873** | 641,733 |
| **Reportable segment profit/(loss)** | **27,086** | (2,087) | **(743)** | – | **26,343** | (2,087) |
| Interest income | **466** | 82 | **–** | – | **466** | 82 |
| Interest expense | **(9,905)** | (7,984) | **–** | – | **(9,905)** | (7,984) |
| Depreciation of property, plant and equipment for the year | **(9,669)** | (11,618) | **–** | – | **(9,669)** | (11,618) |
| Depreciation of right-of-use assets for the year | **(9,447)** | – | **–** | – | **(9,447)** | – |
| Impairment loss on trade and other receivables | **(53,031)** | (515) | **(36)** | – | **(53,067)** | (515) |
| Impairment loss on intangible assets | **–** | – | **(2,387)** | – | **(2,387)** | – |
| Fair value changes on convertible promissory note | **–** | – | **(1,805)** | – | **(1,805)** | – |
| **Reportable segment assets** | **309,258** | 306,020 | **12,839** | – | **322,097** | 306,020 |
| Additions to non-current assets during the year | **15,808** | 2,621 | **10,850** | – | **26,658** | 2,621 |
| **Reportable segment liabilities** | **314,879** | 269,821 | **1,159** | – | **316,038** | 269,821 |

**Reconciliation of reportable segment revenue, profit, assets and liabilities**

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| **Revenue** | | |
| Reportable segment revenue | **590,873** | 641,733 |
| **Consolidated revenue** | **590,873** | 641,733 |
| **Profit** | | |
| Reportable segment profit/(loss) | **26,343** | (2,087) |
| Interest income | **466** | 82 |
| Depreciation of property, plant and equipment for the year | **(9,669)** | (11,618) |
| Depreciation of right-of-use assets for the year | **(9,447)** | – |
| Impairment loss on trade and other receivables | **(53,067)** | (515) |
| Impairment loss on intangible assets | **(2,387)** | – |
| Fair value changes on convertible promissory note | **(1,805)** | – |
| Finance costs | **(9,905)** | (7,984) |
| Consolidated loss before taxation | **(59,471)** | (22,122) |
| **Assets** | | |
| Reportable segment assets | **322,097** | 306,020 |
| Deferred tax assets | **1,719** | 321 |
| Current tax recoverable | **1,078** | 3,605 |
| Cash and cash equivalents | **47,836** | 75,687 |
| Consolidated total assets | **372,730** | 385,633 |
| **Liabilities** | | |
| Reportable segment liabilities | **316,038** | 269,821 |
| Current tax payable | **–** | 268 |
| Consolidated total liabilities | **316,038** | 270,089 |

**Geographic information**

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets, convertible promissory note, right-of-use assets, deferred tax assets and goodwill ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of other than prepaid insurance premium, and the location to which they are managed, in the case of intangible assets.

| | **Revenue from external customers** | | **Specified non-current assets** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) | **(Unaudited)** | (Audited) |
| Hong Kong (place of domicile) | **–** | – | **38,735** | 16,984 |
| USA | **530,309** | 582,997 | **–** | – |
| Italy | **53,919** | 39,519 | **–** | – |
| UK | **1,871** | 11,680 | **–** | – |
| PRC | **266** | – | **23,285** | 14,504 |
| Sri Lanka | **–** | – | **60,438** | 59,703 |
| Others *(Note)* | **4,508** | 7,537 | **–** | – |
| | **590,873** | 641,733 | **122,458** | 91,191 |

*Note:* Others mainly includes Japan, Spain and Canada.

**Information about major customers**

Revenue attributed from customers that accounted for 10% or more of the Group's total revenue for the years ended 31 March 2020 and 2019 is as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Customer A | **369,990** | 445,511 |
| Customer B | **131,212** | 130,073 |

## 5. REVENUE

### Disaggregation of revenue

Disaggregation of revenue from contracts with customers by significant category of revenue is as follows:

| | 2020 | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| **Revenue from contracts with customers within the scope of HKFRS 15** | | |
| Sales of garments | **590,034** | 641,733 |
| Licensing and related income | **839** | – |
| | **590,873** | 641,733 |
| **Major products and services** | | |
| Outerwear | **268,866** | 242,126 |
| Bottoms | **198,621** | 249,076 |
| Tops | **43,042** | 32,980 |
| Others *(Note)* | **80,344** | 117,551 |
| | **590,873** | 641,733 |
| **Timing of revenue recognition:** | | |
| At a point in time | **590,873** | 641,733 |
| Transferred over time | **–** | – |
| | **590,873** | 641,733 |

*Note:* Others products mainly includes dresses, suits, gown, scarf, jumpsuits, vests and licensing income.

The Group's revenue represents the net invoiced value of goods sold and licensing income which recognised in accordance with accounting policy.

The following table provides information about trade receivables from contracts with customers.

| | 2020 | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Trade receivables *(Note 12)* | **137,323** | 152,891 |

## 6. OTHER REVENUE

| | 2020 | 2019 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Bank interest income | **466** | 82 |
| Sample sales income | **2,874** | 3,789 |
| Claims income | **424** | 936 |
| Government grant | **66** | – |
| | **3,830** | 4,807 |

## 7. OTHER GAINS AND LOSSES, NET

The Group's other gains and losses, net, recognised during the reporting period are as follows:

| | 2020 | 2019 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Expected credit loss on trade and other receivables, net | **(53,067)** | (515) |
| Impairment of intangible assets | **(2,387)** | – |
| Gain on disposal of property, plant and equipment | **169** | 2 |
| Fair value changes on prepaid insurance premium | **(390)** | 251 |
| Fair value changes on convertible promissory note | **(1,805)** | – |
| Exchange gains, net | **915** | 660 |
| | **(56,565)** | 398 |

## 8. LOSS BEFORE INCOME TAX EXPENSE

The Group's operating loss is arrived at after charging/(crediting):

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Auditor's remuneration | **1,180** | 1,180 |
| Depreciation charges: | | |
| – property, plant and equipment *(Note (i))* | **9,669** | 11,618 |
| – right-of-use assets | **9,447** | – |
| Amortisation of payment for leasehold land held for own use under operating lease *(Note (ii))* | **–** | 578 |
| Fair value changes on prepaid insurance premium | **390** | (251) |
| Fair value changes on convertible promissory note | **1,805** | – |
| Impairment of intangible assets | **2,387** | – |
| Expected credit loss on trade and other receivables | **53,067** | 515 |
| Cost of inventories recognised as expense *(Note (iii))* | **479,501** | 548,829 |
| Listing expenses | **–** | 8,937 |
| Short-term leases expenses | **404** | – |
| Total minimum lease payments for leases previously classified as operating leases under HKAS 17 in respect of | | |
| – Motor vehicles | **–** | 531 |
| – Land and buildings | **–** | 4,475 |
| Employee costs *(Note (iv))* | **143,472** | 137,879 |

(i) Depreciation charges of HK$6,805,000 (2019: HK$7,874,000) included in direct operating costs and HK$2,864,000 (2019: HK$3,744,000) included in general and administrative expenses.

(ii) Amortisation charges of nil (2019: HK$357,000) included in direct operating costs and nil (2019: HK$221,000) included in general and administrative expenses.

(iii) Cost of inventories recognised as expense includes HK$130,093,000 (2019: HK$140,680,000) of subcontracting charge, depreciation, amortisation charges, staff cost and manufacturing overhead, which are also included in the respective total amounts disclosed above for each types of expenses.

(iv) Employee costs of HK$79,025,000 (2019: HK$77,518,000) included in direct operating costs; HK$19,585,000 (2019: HK$20,855,000) included in selling and distribution costs; and HK$44,862,000 (2019: HK$39,506,000) included in general and administrative expenses.

## 9. INCOME TAX (CREDIT)/EXPENSE

The amount of income tax (credit)/expense in the consolidated statements of profit or loss and other comprehensive income represents:

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Hong Kong profits tax | | |
| – Current taxation | **–** | – |
| – Under provision in prior years | **663** | 360 |
| | **663** | 360 |
| Overseas profits tax | | |
| – Current taxation | **94** | 398 |
| – (Over)/under provision in prior years | **(213)** | 50 |
| | **(119)** | 448 |
| Deferred tax | | |
| – Current year | **(1,377)** | (260) |
| Income tax (credit)/expense | **(833)** | 548 |

The Group is subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands, the Company incorporated in the Cayman Islands is not subject to any income tax.

For the year, Hong Kong profits tax for the Hong Kong subsidiaries has been provided at the rate of 16.5% (2019:16.5%) on the estimated assessable profits. A HK subsidiary of the Group has been entitled to a concessionary tax rate of 50% (2019: 50%) on the transactions made with a PRC subsidiary of the Group under the relevant contract processing arrangement. On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Pursuant to the income tax rules and regulations of the PRC, the provision for PRC Enterprise Income Tax ("EIT") of the subsidiary of the Group is calculated based on the statutory tax rate of 25% (2019:25%) on the assessable profits for the year.

The provision for Sri Lanka Corporate Income Tax is based on the statutory rate of 14% (2019: 14%) of the assessable profit of the Sri Lanka subsidiaries of the Group for the year as determined in accordance with the Sri Lanka's Inland Revenue Act No. 10 of 2006 which was effective on 31 March 2006.

The income tax (credit)/expense for the year can be reconciled to the loss before income tax expense per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Loss before income tax | **(59,471)** | (22,122) |
| Tax calculated at the profit tax rate of 16.5% applicable to profits | **(9,813)** | (3,650) |
| Effect of different tax rates of subsidiaries operating in other countries | **(91)** | 350 |
| Effect of tax exemption and reduction | **–** | (207) |
| Tax effect of expenses not deductible for tax purposes | **2,248** | 2,338 |
| Tax effect of revenue not taxable for tax purposes | **(306)** | (1,474) |
| Under provision in respect of prior years | **450** | 410 |
| Tax effect of temporary difference not recognised | **1,198** | 215 |
| Tax effect of tax losses not recognised | **6,084** | 2,628 |
| Utilisation of tax losses previously not recognised | **(603)** | (62) |
| Income tax (credit)/expense | **(833)** | 548 |

## 10. EARNINGS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the years ended 31 March 2020 and 2019. The weighted average number of ordinary shares used for such purpose has been retrospectively adjusted for the effect of the issue of shares in connection with the capitalisation of shares which took place on 19 October 2018.

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| **Earnings** | | |
| Loss attributable to owners of the Company for the purposes of calculations of basic loss per share | **(58,638)** | (22,670) |

| | **2020** | 2019 |
|---|---|---|
| | ***'000*** | *'000* |
| | **(Unaudited)** | (Audited) |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of calculations of basic loss per share | **800,000** | 689,864 |

The weighted average number of ordinary shares for such purpose has been retrospectively adjusted for the effects of the issue of Shares in connection with the Reorganisation Issue and Capitalisation Issue.

The Company did not have any dilutive potential ordinary shares in issue for both 2020 and 2019.

## 11. DIVIDEND

The Board of directors do not recommend the payment of final dividend for the years ended 31 March 2020 and 2019.

## 12. TRADE AND OTHER RECEIVABLES

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Trade receivables | **190,085** | 153,684 |
| Less: Loss allowances on trade receivables | **(52,762)** | (793) |
| Trade receivables, net *(Note 5)* | **137,323** | 152,891 |
| Prepayments | **3,534** | 14,356 |
| Other receivables *(Note)* | **17,285** | 721 |
| Utilities and sundry deposits | **1,687** | 1,730 |
| | **22,506** | 16,807 |
| Less: Loss allowances on other receivables *(Note)* | **(1,098)** | – |
| | **21,408** | 16,807 |
| | **158,731** | 169,698 |

*Note:* Included in other receivables, an amount of HK$16,921,000 (equivalent to US$2,175,000) (2019: Nil) is due from a non-related company which is a customer and the convertible note holder of the Group which has good business relationship with the Group as at 31 March 2020. The balance is unsecured, interest-free and repayable on demand.

Loss allowance for ECL of HK$1,098,000 (2019: Nil) that has been recognised for other receivables under ECL model for the year ended 31 March 2020.

The ageing analysis of trade receivables, net of loss allowances at the end of reporting period, based on the invoice date, is as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| 0–30 days | **38,026** | 59,379 |
| 31–90 days | **57,511** | 76,677 |
| 91–365 days | **35,765** | 16,162 |
| Over 365 days | **6,021** | 673 |
| | **137,323** | 152,891 |

The directors consider that the fair values of trade receivables are not materially different from their carrying amounts because these amounts have short maturity periods on their inception.

The credit period granted to trade debtors ranges 0–90 days from the invoice dates. No significant change in the gross carrying amounts of trade receivable during the year contributed to changes in the loss allowance.

## 13. TRADE, BILLS AND OTHER PAYABLES

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Trade payables | **21,644** | 40,407 |
| Bills payables | **30,544** | 24,927 |
| Other payables and accruals | **13,421** | 11,971 |
| | **65,609** | 77,305 |

Bills payables have to be settled within three months from the date of issue.

The ageing analysis of trade payables based on invoice date are as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| 0–30 days | **16,843** | 22,215 |
| 31–90 days | **3,554** | 18,057 |
| 91–365 days | **1,244** | 106 |
| Over 365 days | **3** | 29 |
| | **21,644** | 40,407 |

Credit terms granted by the suppliers are generally 0–90 days. All amounts have short maturity periods on their inception and hence the carrying amounts of trade and other payables are considered to be a reasonable approximation to their fair values.

## 14. LEASES

HKFRS 16 was adopted on 1 April 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 April 2019, see Note 2(a).

**Nature of leasing activities (in the capacity as lessee)**

The Group has obtained the right to use properties as its administrative offices through tenancy agreements, comprise only fixed payments over the lease terms.

**Right-of-use Assets**

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

| | **As at 31 March 2020** | As at 1 April 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Leasehold land leased for own use, carried at depreciated cost | **22,829** | 23,329 |
| Properties leased for own use, carried at depreciated cost | **14,709** | 22,646 |
| | **37,538** | 45,975 |

During the year, additions to right-of-use assets were HK$1,646,000. This amount related to the capitalised lease payments payables under new tenancy agreements.

**Lease Liabilities**

| **31 March 2020** | **Buildings** *HK$'000* **(Unaudited)** |
|---|---|
| Opening balance | **23,280** |
| Additions | **1,646** |
| Interest expense | **1,057** |
| Lease payments | **(9,735)** |
| Exchange realignments | **(726)** |
| Ending balance | **15,522** |

Future lease payments are due as follows:

| **31 March 2020** | **Minimum lease payments** *HK$'000* **(Unaudited)** | **Interest** *HK$'000* **(Unaudited)** | **Present value of minimum lease payments** *HK$'000* **(Unaudited)** |
|---|---|---|---|
| Within one year | **9,302** | **676** | **8,626** |
| Later than one year but within five years | **13,481** | **6,585** | **6,896** |
| | **22,783** | **7,261** | **15,522** |

| **1 April 2019** | Minimum lease payments *HK$'000* (Unaudited) | Interest *HK$'000* (Unaudited) | Present value of minimum lease payments *HK$'000* (Unaudited) |
|---|---|---|---|
| Within one year | 9,795 | 1,052 | 8,743 |
| Later than one year but within five years | 21,511 | 6,974 | 14,537 |
| | 31,306 | 8,026 | 23,280 |

*Note:* The Group has applied HKFRS 16 using the cumulative effect approach and adjusted the opening balance at 1 April 2019 to recognise leases liabilities relating to leases which were previously classified as operating leases under HKAS 17.

The present value of future lease payments are analysed as:

| | **As at 31 March 2020** | As at 1 April 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Current liabilities | **8,626** | 8,743 |
| Non-current liabilities | **6,896** | 14,537 |
| | **15,522** | 23,280 |

**Operating Lease Commitments**

***The Group as lessee***

As at 31 March 2019, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 2019 |
|---|---|
| | *HK$'000* |
| | (Audited) |
| Not later than one year | 10,395 |
| Later than one year and not later than five years | 13,864 |
| Later than five years | 8,981 |
| | 33,240 |

The Group leases a number of motor vehicles, office premises, facilities and leasehold land under operating leases. The leases run for an initial period of two to fifty years. None of the leases include contingent rentals.

## 15. SUBSEQUENT EVENTS

### Bankruptcy of a major customer

On 4 May 2020, one of the Group's major customers (the "Customer") filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Eastern District of Virginia in the United States of America. The Board considers and contemplates that the filing of Chapter 11 by the Customer may have an adverse impact on the business operations and financial position of the Group. On 28 May 2020, the Group and the major customer had concluded a trade and settlement arrangement to settle approximate US$9,579,000 for the total amount owed as of 5 May 2020 to be settled within 4 months. As at 15 June 2020, the Group received approximately US$4,211,000 settlement and the remaining balances is in the process of collecting the agreed settlement from the major customer.

### Outbreak of Coronavirus

For the year ended 31 March 2020, the operating results of the Group has been affected by the outbreak of Coronavirus Disease 2019 (the "COVID-19 outbreak") in early 2020. A series of precautionary and control measures have been and continued to be implemented across the world, including certain level of restrictions and controls over the travelling of people and traffic arrangements, quarantine of certain residents, heightening of hygiene and epidemic prevention requirements in factories and offices and encouraged social distancing.

Certain retail stores customers and overseas OEM suppliers of the Group experienced difficulty in resuming their normal operations in the short term. Consequently, shipment schedules of certain goods have been postponed and the Group has been closely monitoring the status of the shipment. Certain cancellation of orders has taken place as of the date of this report. Based on the latest market situation, management expects the Group's business performance for the six months ending 30 September 2020 to be unfavourable.

In preparing the consolidated financial statements, the Group tested non-current assets including but not limited to intangible assets, goodwill, right-of-use assets and property, plant and equipment for impairment and the recoverable amount of the relevant CGUs exceeds its carrying amount, thus no provision for impairment is made. In performing this assessment, the Group estimated the present value of future cash flows of the CGUs based on the conditions of COVID-19 outbreak and its impact on the present value of estimated future cash flows of the CGUs.

Following the COVID-19 outbreak, the Group also expects to experience longer trade receivable turnover time, which may lead to an increase in the expected credit loss on trade receivables. As of the date of this report, the impacts of the COVID-19 outbreak on the Group's customers' financial positions and the macro-economic conditions as a whole are still uncertain, the Group is unable to quantify the related financial effects. The Group will pay close attention to the development of the COVID-19 outbreak, perform further assessment of its impact and take relevant measures where needed.

## MANAGEMENT DISCUSSION AND ANALYSIS

## COMPANY BACKGROUND

Sterling Group Holdings Limited ("the Company") together with its subsidiaries ("the Group") is an apparel manufacturer headquartered in Hong Kong providing a one-stop apparel manufacturing solution for its customers. The Group manufactures a wide range of apparel products such as outerwear, bottoms, tops and other products. The majority of the customers are international apparel brands that are headquartered in the U.S. and certain European countries such as the U.K. with their products sold around the world. In particular, the Group has established a long standing relationship with its largest customer who is an international apparel brand headquartered in the U.S. since the 1990s. In recent years, the Group has actively diversified its customer base and product portfolio having secured several new customers, including a high-end fashion brand from U.S., a British online fashion retailer, a well-known U.K. luxury brand and an American retailer business outfitters division supplying flight crew uniforms for U.S. airlines. In March 2020, the Group has entered into a direct vendor agreement with a company listed on the NASDAQ Capital Market pursuant to which the Group has become the exclusive supplier of apparel products under its proprietary brands for five years.

As at 31 March 2020, the Group owned three production facilities; one located in the PRC and two in Sri Lanka.

The Company was successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited ("SEHK") on 19 October 2018. The Listing represents an important milestone to the Group and will greatly benefit the Group's further development in the future.

## BUSINESS REVIEW

### Financial Overview

For the year ended 31 March 2020 (the "Year" or "current reporting period"), the Group's revenue decreased by about 7.9% to approximately HK$590,873,000 from approximately HK$641,733,000 for the year ended 31 March 2019. Sales to the United States, which is the major market of the Group, were seriously affected by the protracted trade war between China and the USA in 2019 and the outbreak of COVID-19 starting in early 2020. As a result of COVID-19, the lockdown of Sri Lanka and the Philippines, the principal locations of the Group's production facilities and subcontractors, had caused substantial negative impact to the production and delivery of orders in the first quarter of 2020. Notwithstanding the decrease in revenue for the Year, the gross profit margin of the Group increased from 14.5% to 18.8% as a result of lower outsourcing costs and higher product margin from more tailored apparels and the airline uniform program completed during the year. The loss for the Year amounted to approximately HK$58,638,000 (2019: loss approximately HK$22,670,000) chiefly due to the expected credit loss from the Group's major customer.

The COVID-19 has seriously imperiled the financial position of a major customer of the Group leading to its filing of Chapter 11 protection on 4 May 2020. This customer has historically accounted for about 50% to 70% of the Group's total revenue for these few years. As of the date of petition, the total gross accounts receivable outstanding from this customer amounted to approximately US$15 million or approximately HK$120 million.

Furthermore, the COVID-19 outbreak has caused widespread lockdown of businesses in the U.S., stay-at-home orders in many states and drastically dampened the consumer's propensity to spend, hurting or potentially hurting many of the retailers in the U.S. market including the Group's customers. Due to this severe economic contraction in the U.S., a significant increase in the allowance for expected credit loss (the "ECL") including the impact of the Chapter 11 filing was recognised on the trade and other receivables held by the Group. The total expected credit loss on trade and other receivables (both individual and collective basis) increased from approximately HK$515,000 for the year ended 31 March 2019 to approximately HK$53,067,000 for the year ended 31 March 2020. Impairment of intangible assets, the J Peterman trademark, and fair value changes on the convertible promissory note ("CPN") to JP Outfitters, in the amount of approximately HK$2,387,000 and HK$1,805,000 respectively were recorded as of 31 March 2020 as a result of a generally more severe economic environment. Both the recoverable amounts of the trademark and fair value of CPN were determined by reference to the valuation reports issued by an independent valuer. By excluding the exceptional items for the Year of expected credit losses on trade and other receivables, and impairment of intangible assets and fair value change of CPN, the Group recorded a net loss of approximately HK$1,379,000 and an EBITDA* of approximately HK$26,809,000 for the Year, compared with a net loss of approximately HK$22,670,000 and an EBITDA* (after adding back non-recurring listing expenses) of approximately HK$6,995,000 for the same period in 2019. Had it not been for the outbreak of COVID-19, the Group would have achieved a significant improvement in operating performance for the Year ended 31 March 2020.

## DIVIDEND

The Company did not recommend the declaration of final dividend for the year ended 31 March 2020 (2019: Nil).

* *EBITDA represents the profit before income tax expense, adding back finance costs, depreciation and amortization of payment for leasehold land held for own use under operating lease. The use of EBITDA has certain limitations because it does not reflect all items of income and expenses that affect the operations. The term EBITDA is not defined under the Hong Kong Financial Reporting Standards ("HKFRS"), and EBITDA is not a measure of profit and total comprehensive income or liquidity presented in accordance with HKFRS.*

**Sales by Product Categories**

The Group's apparel products can generally be divided into four categories, namely (i) outerwear (which includes mainly jackets, coats and blazers and are chiefly made from wool and wool blend), (ii) bottoms (which include pants, shorts and skirts, and are chiefly made from cotton, wool and wool blend), (iii) tops (which include mainly shirts, blouses and tank tops, and are chiefly made from cotton, polyester, triacetate and lyocell) and (iv) other products (which include mainly dresses, suits, gown scarf, jumpsuits and vests, and are chiefly made of cotton, wool and wool blend).

During the Year, the sales volume of the Group amounted to approximately 2,750,600 pieces of finished apparel products (2019: approximately 3,830,000 pieces). The decrease in sales volume is mainly attributable to the decrease in bottoms. The sales volume of bottoms decreased by approximately 40.3% from approximately 2,297,000 pieces for the year 31 March 2019 to approximately 1,372,000 pieces for the Year, reflecting a significant change in product mix as a major portion of our own manufacturing capacity in Sri Lanka was dedicated to the airline uniform program compared with the larger volume and lower-priced cotton shorts and pants program of the previous year. The overall average selling price per piece of all apparel products in the Year was approximately HK$214.5 vs. HK$167.6 in previous year. The average selling price per piece of outerwear, bottoms, tops and others amounted to approximately HK$309.3, HK$144.8, HK$218.4 and HK$259.5 respectively for the year ended 31 March 2020, and approximately HK$334.3, HK$108.4, HK$180.3 and HK$191.4 respectively for the year ended 31 March 2019.

**Selling and Distribution Costs**

Selling and distribution costs for the Year decreased by approximately 7.6% to approximately HK$37,923,000 (2019: approximately HK$41,048,000). It was in line with the decrease in sales turnover in the current Year.

**General and Administrative expenses**

General and administrative expenses for the Year were approximately HK$70,280,000, representing an increase of approximately HK$8,023,000 from that of approximately HK$62,257,000 for the year ended 31 March 2019. The higher expenses mainly stemmed from increases in people and other overhead costs as the Group increased its production in-house vs. outsourcing because a greater proportion of our products in the current year requires own manufacturing due to the higher requirement in construction, fit and quality such as the airline uniform program.

**Finance Costs**

The group's finance costs increased by approximately 24.1% from approximately HK$7,984,000 for the year ended 31 March 2019, to approximately HK$9,905,000 for the Year. The increase in finance costs was mainly due to increase in the interest in lease liabilities upon adoption of HKFRS 16 and the Group's borrowings during the Year.

**Income tax expenses**

Due to the loss incurred by the Group, there was an income tax credit of approximately HK$833,000 for the Year (2019: income tax expense approximately HK$548,000)

**Financial Position**

As at 31 March 2020, the Group's cash and cash equivalents amounted to approximately HK$47,836,000 (2019: approximately HK$75,687,000). The decrease was mainly due to the delay in settlement of trade receivables by customers due to tighter credit conditions during COVID-19 period.

Bank borrowing increased by approximately HK$40,996,000 (approximately 21.5%) to approximately HK$231,439,000 as at 31 March 2020 (2019: approximately HK$190,443,000). It was mainly attributable to the utilisation of a US$1,400,000 loan for the acquisition of intellectual property, the issuance of a US$500,000 convertible promissory note to JP Outfitters, total capital expenditures of approximately HK$14,162,000 during the Year.

**OUTLOOK**

The year ahead is likely to be one full of challenges as COVID-19, which was first reported in China in early 2020, still shows no signs of being under control with the recent surge in new cases around the world, especially in the U.S. where its consumption demand drives a significant portion of apparel exports from the Asian countries. This pandemic has already caused widespread distress in the economy, more particularly in the retail sector as social distancing, business lockdown and stay-at-home orders are implemented everywhere. The Group encountered its own difficulty as a major customer filed Chapter 11 protection in the U.S. on 4 May 2020. However, it is widely anticipated that this customer will emerge from this heavily pre-negotiated Chapter 11 restructuring in about September 2020 as planned. The major impact of this restructuring is to convert all its bank debts into equity. As one of its important critical vendors going forward, the Group anticipates that future business with this customer will be relatively free of the credit risk once associated with a heavy debt load and its renewal after this restructuring.

In the last few years, the Group while serving the needs of its existing customers has also focused on diversifying its customer base. From a very high sales concentration of over 90% with this major customer for many years, we have reduced its proportion of our total sales revenue to a range of 50% to 70% since about four years ago. Just in the last twelve months, we have added five new customers which are at various stages of starting up, order-processing and actual bulk shipments. However, we do not expect a meaningful contribution from these new customers to the Group's sales turnover until after spring/summer 2021, not only because of the long selling cycle in the OEM manufacturing business but most retailers also have unsold inventory left over from spring/summer 2020 when the world was in the throes of the pandemic. Furthermore, the worldwide economic contraction from the impact of the pandemic continues to dampen retail spending and otherwise curtail/defer the buy plan of most apparel retailers. So, 2020 is the year to batten down the hatches.

Against this backdrop of uncertainty, the Group has continued to shape its cost structure to meet the expected decrease in demand from its customers. Following the reduction in force ("**RIF**") in our China factory last year, the Group's Sri Lanka factory will also see RIF of about 300 employees, which commenced immediately after the lockdown in May 2020. A more severe retrenchment is planned for the Hong Kong head office reducing one third of its office space and RIF of 30 employees effective 30 June 2020, about one third of its headcount, as the Company migrate most of its merchandizing function to the Panyu office. In addition, the staff that remains will see their salaries further adjusted downward up to 33.3% to reflect the harsh economic environment the Company is faced with as every country struggles to recover from the impact of COVID-19. The annual savings of our austerity measures is estimated to be in excess of approximately HK$20,000,000.

We will continue to look for ways to expand our sources of revenue while paring down our expenses. The Company, having endured the financial pressure from the Chapter 11 restructuring of its major customer, is committed to rebuilding from its base.

## LIQUIDITY, CAPITAL RESOURCES AND CAPITAL STRUCTURE

The Company manages its capital structure with the objectives of ensuring that the businesses of the Group can continue to maintain a sustainable growth and providing a long term reasonable return to its Shareholders. The Group's financial position remained healthy and stable. It is anticipated that the Group has sufficient working capital to fund its future working capital, capital expenditure and other cash requirements. As at 31 March 2020, the Group had cash and bank balances amounting to approximately HK$47,836,000 (31 March 2019: approximately HK$75,687,000), and current assets and current liabilities of approximately HK$242,304,000 (as at 31 March 2019: approximately HK$286,084,000) and HK$306,787,000 (as at 31 March 2019: approximately HK$268,016,000) respectively. It should be noted that the current liabilities balance as at 31 March 2020 included approximately HK$13,603,000 (2019: approximately HK$23,739,000), the total of amounts due after one year but were included as current liabilities because of the Payment on Demand clause in bank loan documents.

As at 31 March 2020, there were bank borrowings of approximately HK$231,439,000 (as at 31 March 2019: approximately HK$190,443,000) and unutilized bank facilities of approximately HK$155,041,000. These bank borrowings obtained and repaid are mainly denominated in Hong Kong dollar and US dollar. As at 31 March 2020, the Group's interest-bearing bank borrowings carried mainly variable rate borrowings with annual interest rate of 1.1% to 5.0% per annum.

## GEARING RATIO

As at 31 March 2020, the gearing ratio of the Group, based on total interest-bearing liabilities (primarily bank borrowings) to total equity (including all capital and reserves) of the Company was approximately 408.2% (31 March 2019: approximately 164.8%). The increase in gearing ratio was mainly attributable to the decrease in equity as a result of the large increase in expected credit loss from the Chapter 11 filing of the Group's major customer and the increase in bank borrowing also largely as a result of the same disruption in cash inflow during the Year.

## PLEDGE OF ASSETS

The bank borrowings of the Group are secured by (a) certain assets of the Group, (b) the asset of a related company which share common directors and shareholders of the Group, and (c) the personal guarantees of the two controlling shareholders, one of their spouses who's also a director, and a related party of the other controlling shareholder who together with that controlling shareholder jointly owns a related company.

## SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

On 31 May 2019, an indirect wholly-owned subsidiary of the Company entered into an intellectual Property Purchase Agreement with the seller, JP Outfitters, LLC, pursuant to which the seller has agreed to sell, convey, transfer and assign certain intellectual property rights to the buyer for a cash consideration of US$1,400,000. Concurrently, the buyer, as the licensor, and the seller, as the licensee, entered into a License agreement, pursuant to which the licensor grants to the licensee the rights to use the licensor's intellectual property to manufacture, sell and distribute products in the territory as defined in the license agreement for a certain royalty fee based on sales with a minimum annual amount equal to US$120,000. Additional details of the transaction can be found in the Company's announcement on 31 May 2019.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2020, the Group employed approximately 2,279 full-time employees (as at 31 March 2019: approximately 2,087 full-time employees) in Hong Kong, the PRC and Sri Lanka. The Group recognises the importance of maintaining good relationship with its employees and retaining competent staff to ensure operational efficiency and effectiveness. The remuneration packages offered to the Group's employees are based on market conditions and each employee's qualifications, relevant experience, position and seniority. The Group conducts review on salary increments, bonuses and promotions based on the performance of each employee. The Group provides on-the-job training to its new employees. During the year ended 31 March 2020, the Group had not experienced any strike, any significant problems with its employees or other material labour disputes which had materially disrupted its operation during such period, and has not experienced any difficulties in the recruitment of experienced and skilled staff.

The Group had implemented a 30% reduction in the salary of all the employees, and directors' fees for a period of 3 months with effect from 1 April 2020. In addition, in June 2020, the Group had conducted a staff retrenchment to reduce the number of employees and people cost in Hong Kong while migrating some of the functions in the Hong Kong office to the Group's factories in China and Sri Lanka.

## TREASURY POLICIES AND FOREIGN CURRENCY EXPOSURE

The business activities and operations of the Group are located mainly in Hong Kong, Mainland China and Sri Lanka. It carries out foreign currency transactions in United States Dollars ("US$"), Euro ("EUR"), Renminbi ("RMB") and Sri Lankan Rupees ("LKR"), which expose the Group to foreign currency risks. The Group currently does not have a foreign currency hedging policy but maintains a conservative approach to foreign currency management to ensure its exposure to fluctuations in foreign exchange rates is minimized.

## CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At 31 March 2020, the Group has no capital commitment and contingent liabilities.

## OTHER INFORMATION

## USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

On 19 October 2018 (the "Listing Date"), the shares of the Company (the "Shares") were listed on the Main Board of SEHK. The Group intends to apply the proceeds from the issuance 200,000,000 Shares at the offer price of HK$0.40 per Share (the "Share Offer") in accordance with the proposed applications set out in the section headed "Future Plans and Use of Proceeds", in the prospectus dated 29 September 2018 (the "Prospectus").

After deducting share issuance expense and professional fee regarding to the Share Offer, the net proceeds amounted to approximately HK$54,400,000.

| | Percentage of net proceeds | Planned usage of net proceeds | Utilised net proceeds up to 31 March 2020 | Unutilised net proceeds up to 31 March 2020 |
|---|---|---|---|---|
| | | | *HK$' million* | *HK$' million* |
| Expanding and refurbishing production facilities located in Sri Lanka and the PRC | 30% | 16.3 | 6.6 | 9.7 |
| Repayment of bank borrowings | 25% | 13.6 | 13.6 | 0 |
| Acquisitions of production facilities | 25% | 13.6 | 0 | 13.6 |
| Upgrading information technology system, lean manufacturing and productivity improvement programs | 10% | 5.4 | 0 | 5.4 |
| General working capital | 10% | 5.5 | 5.5 | 0 |
| Net Proceeds | | 54.4 | 25.7 | 28.7 |

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 March 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Company has adopted the Model Code as rules governing dealings by the Directors in the listed securities of the Company on 19 October 2018. Based on specific enquiry with the Directors, all the Directors have compiled with the required standards as set out in the code conduct and the Model Code throughout the year ended 31 March 2020.

## THE CODE OF CONDUCT AND CORPORATE GOVERNANCE

As the Shares were not listed on the Stock Exchange until 19 October 2018, the Company has adopted the CG Code since the Listing Date. The Company confirms it has met the required standards as set out in the corporate governance codes ("CG Code") as contained in Appendix 14 to the Listing Rules throughout the year ended 31 March 2020.

## NON-COMPETITION UNDERTAKING

Each of CFL Global (Comercial Offshore De Macau) Limitada, C.F.L. Enterprise Limited, Rainbow Galaxy Limited ("Rainbow Galaxy") and Mr. Choi Siu Wai William, and each of Moonlight Global Holdings Limited ("Moonlight"), Mr. Siu Chi Wai, Ms. Wong Mei Wai Alice, and Mr. Siu Yik Ming have confirmed to the Company of his/her/its compliance with the non-competition undertakings provided to the Company under two separate deeds of non-competition both dated 21 September 2018 (the "Deeds of Non-competition). The INEDs have reviewed the status of compliance and it was confirmed that all the undertakings under the Deeds of Non-competition had been complied with by the above-mentioned persons and duly enforced during the period ended 31 March 2020.

## INTERESTS OF DIRECTORS AND THE CHIEF EXECUTIVE

The Shares of the Company were listed on the Main Board of SEHK on 19 October 2018. As at the date of this announcement, the interests and short positions of each Director and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of Securities and Futures Ordinance ("the SFO")) which were required to be notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and SEHK pursuant to the Model Code, are as follows:

### Interests and/or short positions in the Company

| Director | Nature of interest | Number of Shares held(1) | Percentage of Interest in the Company |
|---|---|---|---|
| Ms. Wong Mei Wai Alice | Interest of spouse(2) | 300,000,000 (L) | 37.5% |
| Mr. Choi Siu Wai William | Interest in controlled corporation(3) | 272,000,000 (L) | 34.0% |

*Notes:*

1. The letter "L" denotes long position in the shares held.

2. Ms. Wong Mei Wai Alice is the spouse of Mr. Siu Chi Wai and is deemed to be interested in the Shares in which Mr. Siu Chi Wai is interested in under Part XV of the SFO. Those shares are owned by Moonlight. Moonlight, a controlled corporation of the Company, is wholly owned by Mr. Siu Chi Wai.

3. These shares are held by Rainbow Galaxy. The issued share capital of Rainbow Galaxy is ultimately wholly owned by two revocable trusts ("Choi's Family Trusts") both of which Mr. Choi Siu Wai William is the settlor. Mr. Choi Siu Wai William is deemed to be interested in the shares of the Company in which Rainbow Galaxy is interested in under Part XV of the SFO.

Save as disclosed above, as at the date of this announcement, none of the Directors nor the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and SEHK pursuant to the Model Code.

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the date of this announcement, so far as the Directors are aware, the following persons had an interest or short position in the Shares or the underlying Shares which were required to be disclosed to the Company and SEHK under the provisions of Divisions 2 and 3 of Part XV of the SFO:

| Name | Capacity/nature of interest | Number of Shares[(1)] | Percentage shareholding |
|---|---|---|---|
| Moonlight | Beneficial owner | 300,000,000 (L) | 37.5% |
| Rainbow Galaxy[(2)] | Beneficial owner | 272,000,000 (L) | 34.0% |
| Mr. Siu Chi Wai | Interest of controlled corporation[(3)] | 300,000,000 (L) | 37.5% |
| Ms. Wong Mei Wai Alice | Interest of spouse[(4)] | 300,000,000 (L) | 37.5% |
| Mr. Choi Siu Wai William | Interest of controlled corporation[(5)] | 272,000,000 (L) | 34.0% |
| Ms. Cheung Shui Lin | Interest of spouse[(6)] | 272,000,000 (L) | 34.0% |

*Notes:*

1. The letter "L" denotes a long position in the Shares.

2. Rainbow Galaxy is directly wholly owned by Angel Sense Limited, a company incorporated in the BVI. Angel Sense Limited is owned as to 50.0% by Mega Capital Assets Limited (a company incorporated in the BVI) and as to 50.0% by Capital Star Assets Limited (a company incorporated in the BVI). Each of Mega Capital Assets Limited and Capital Star Assets Limited is wholly owned by a revocable family trust of which Mr. Choi Siu Wai William is the settlor.

3. The issued share capital of Moonlight is wholly owned by Mr. Siu Chi Wai. Mr. Siu Chi Wai is deemed to be interested in the Shares in which Moonlight is interested in under Part XV of the SFO.

4. Ms. Wong Mei Wai Alice is the spouse of Mr. Siu Chi Wai and is deemed to be interested in the Shares in which Mr. Siu Chi Wai is interested in under Part XV of the SFO. Moonlight, a controlled corporation of the Company, is wholly owned by Mr. Siu Chi Wai.

5. These shares are held by Rainbow Galaxy. The issued share capital of Rainbow Galaxy is ultimately wholly owned by Choi's Family Trusts of which Mr. Choi Siu Wai William is the settlor. Mr. Choi Siu Wai William is deemed to be interested in the Shares in which Rainbow Galaxy is interested in under Part XV of the SFO.

6. Ms. Cheung Shui Lin is the spouse of Mr. Choi Siu Wai William and is deemed to be interested in the Shares in which Mr. Choi Siu Wai William is interested in under Part XV of the SFO. Rainbow Galaxy, a controlled corporation of the Company, is ultimately wholly owned by Choi's Family Trusts of which Mr. Choi Siu Wai William is the settlor.

Save as disclosed above, as at the date of this announcement, the Directors are not aware of any person who had an interest or short position in the Shares or the underlying Shares which were required to be disclosed to the Company and SEHK under the provisions of Divisions 2 and 3 of Part XV of the SFO.

## FINAL DIVIDEND

The Directors of the Company do not recommend payment of any final dividend to shareholders of the Company for the year ended 31 March 2020.

## IMPORTANT EVENTS AFTER THE REVIEW PERIOD

The details are set out in note 15 to the consolidated financial statements in this announcement.

## AUDIT COMMITTEE REVIEW

The Company has established the Audit Committee in accordance with the requirements of the CG Code for the purpose of reviewing and supervising the Group's financial reporting process. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Chan Kee Huen Michael, Mr. Cheng King Hoi Andrew and Mr. Ko Ming Tung Edward. Mr. Chan Kee Huen Michael is the chairman of the Audit Committee.

The auditing process for the final results of the Group for the year ended 31 March 2020 has not been completed due to the outbreak of 2019 Novel Coronavirus. The unaudited consolidated final results contained herein have not been agreed by the auditors of the Company as required under Rule 13.49(2) of the Listing Rules. The audited consolidated final results announcement of the Company for the year ended 31 March 2020 will be made once the auditing process is completed pursuant to the Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants and other applicable laws and regulations.

The Audit Committee of the Company has reviewed the Group's unaudited consolidated final results contained herein for the year ended 31 March 2020.

## FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will make further announcement(s) relating to (i) the audited consolidated final results of the Group for the year ended 31 March 2020 as agreed by the auditors of the Company and material differences (if any) as compared with the unaudited consolidated final results contained herein; (ii) the proposed final dividend for the year ended 31 March 2020 and the closure of register of members to determine the entitlement of shareholders of the Company for the proposed final dividend (if any); and (iii) the date of the forthcoming annual general meeting of the Company and the closure of register of members to determine the entitlement of shareholders of the Company to attend and vote at that meeting. In addition, the Company would make further announcement(s) when there are any material updates in the auditing process, if necessary.

## PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the Company's website at www.sterlingapparel.com.hk. The annual report of the Company for the year ended 31 March 2020 will be available on both websites and dispatched to the shareholders of the Company in due course.

By Order of the Board
**Sterling Group Holdings Limited**
**美臻集團控股有限公司***
**Choi Siu Wai, William**
*Chairman*

Hong Kong, 29 June 2020

*As at the date of this announcement, Ms. Wong Mei Wai Alice, Mr. Siu Yik Ming and Mr. Chung Sam Kwok Wai are the executive Directors, Mr. Choi Siu Wai William is the non-executive Director and Chairman, and Mr. Chan Kee Huen Michael, Mr. Cheng King Hoi Andrew and Mr. Ko Ming Tung Edward are the independent non-executive Directors.*

* *For identification purpose only*