Shen You Holdings Limited
申酉控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8377

2017
ANNUAL REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wong Kwok Wai, Albert *(Chairman)*
Mr. Lee Wing Hong

Non-executive Director

Mr. Ng Chan Lam

Independent non-executive Directors

Mr. To King Yan, Adam
Dr. Yeung Ngai Man, John
Mr. Sung Alfred Lee Ming

COMPLIANCE OFFICER

Mr. Chan Yiu Tung, Enoch

AUTHORISED REPRESENTATIVES

Mr. Wong Kwok Wai, Albert
Mr. Chan Yiu Tung, Enoch

COMPANY SECRETARY

Mr. Chan Yiu Tung, Enoch

AUDIT COMMITTEE

Mr. Sung Alfred Lee Ming *(Chairman)*
Mr. To King Yan, Adam
Dr. Yeung Ngai Man, John

REMUNERATION COMMITTEE

Dr. Yeung Ngai Man, John *(Chairman)*
Mr. Sung Alfred Lee Ming
Mr. To King Yan, Adam

NOMINATION COMMITTEE

Mr. Wong Kwok Wai, Albert *(Chairman)*
Mr. To King Yan, Adam
Mr. Sung Alfred Lee Ming

AUDITOR

Ernst & Young
Certified Public Accountants

COMPLIANCE ADVISER

Huabang Corporate Finance Limited

HONG KONG LEGAL ADVISERS

Wan Yeung Hau & Co.
Room 2210
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The Hongkong and Shanghai Banking Corporation Limited

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

COMPANY'S WEBSITE

www.shenyouholdings.com

STOCK CODE

8377

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors of the Company (the "**Board**"), I am delighted to present the first annual report of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017.

LISTING

On 15 December 2017, the shares of the Company were successfully listed on GEM of the Stock Exchange (the "**Listing**"), signifying a remarkable accomplishment for the Group. The Listing enables the Company to capture more business opportunities via a public platform as well as enhance its internal corporate governance functions and image. Further, the Listing provided an opportunity for the Company to strengthen its internal control procedures and to raise the efficiency of the Group's day-to-day operations.

BUSINESS OVERVIEW

For the year ended 31 December 2017, the Group's revenue increased slightly to approximately HK$74.4 million, representing an increase of approximately 2.4%, as compared to revenue of approximately HK$72.6 million for the year ended 31 December 2016. The Group's net loss increased to approximately HK$13.2 million for the year ended 31 December 2017 from approximately HK$0.5 million for the year ended 31 December 2016, representing a significant increase of approximately 2,665.2%. Such increase was mainly due to the non-recurring listing expenses of approximately HK$18.5 million recognised in the Group's consolidated statement of profit or loss for the year ended 31 December 2017. If such non-listing expenses were excluded, the Group would generate a net profit of approximately HK$5.4 million.

PROSPECTS

Looking forward, the Group will be exposed to challenges in the sewing threads industry. Nevertheless, the Company will strive to meet its objective of attaining sustainable growth in the industry through the implementation of the plans set out in the section headed "Future Plans and Use of Proceeds" of its prospectus dated 30 November 2017 (the "**Prospectus**"). The Group believes that it will be able to overcome the challenges by adapting to the changing trends in the sewing threads industry, including product diversification, exploring applications beyond garments and technological innovation. By leveraging such changing trends, the Company further believes that its market position will be strengthened and its long-term growth will be fostered, which will in turn maximise the returns for its shareholders.

APPRECIATION

I wish to take this opportunity to extend my sincere thanks to our shareholders, business partners, customers and suppliers for their continuous support. I would also like to express my deep gratitude to my fellow Directors and the Group's management team and staff for their efforts and dedication to the Group during the past year.

Shen You Holdings Limited
Wong Kwok Wai, Albert
Chairman and executive Director

Hong Kong, 29 March 2018

INTRODUCTION

The Group is principally engaged in the manufacturing and selling of sewing threads. It currently manufactures polyester sewing threads, which are mainly used for garments. The major product of the Group is 100% spun polyester sewing threads. Other types of sewing threads are also offered, including textured polyester series, elastic filament sewing threads and weft yarn. The Group's customers are located in the People's Republic of China (the "**PRC**"), Hong Kong as well as overseas countries, including United Arab Emirates ("**UAE**"), Mauritius, Australia, Germany and the United Kingdom. While the Group's customers in the PRC and Hong Kong are mainly garment manufacturers, its overseas customers are mainly wholesalers. The production facilities of the Group, where the sewing threads manufacturing process is conducted, are located in Liwan, Guangzhou (the "**Guangzhou Production Facilities**").

BUSINESS REVIEW

For the year ended 31 December 2017, the Group's revenue increased slightly by approximately 2.4% as compared with that for the year ended 31 December 2016. The gross profit margin decreased to approximately 34.3% for the year ended 31 December 2017 from 37.2% for the preceding year. The decrease in gross profit margin was mainly attributable to the appreciation of Renminbi against Hong Kong dollars.

Non-recurring listing expenses of approximately HK$18.5 million were recognised in the Group's consolidated statement of profit or loss during the year ended 31 December 2017, which significantly affected the financial results of the Group for the year ended 31 December 2017. As a result, the net loss attributable to the owners of the Company increased to approximately HK$13.2 million for the year ended 31 December 2017 as compared to approximately HK$0.5 million for the year ended 31 December 2016, representing an increase of approximately 2,665.2%.

On 15 December 2017, the shares of the Company (the "**Share(s)**") were successfully listed on GEM of the Stock Exchange by way of share offer (the "**Share Offer**"). After deducting all the relevant commission and expenses in relation to the Listing, net proceeds amounting to approximately HK$40.7 million have been raised from the Listing. The Group will utilise such net proceeds by implementing its corporate plans in accordance with the business strategies as set out under the section headed "Future Plans and Use of Proceeds" in the Prospectus.

The Board and the senior management of the Company are confident of the Group's steady performance given its competitive strengths, which include: (i) the long-term business relationships with its customers and suppliers; (ii) adoption of stringent quality control mechanisms in the course of sewing threads production; (iii) the strategic location of the Guangzhou Production Facilities for its business development; and (iv) an experienced management team with extensive industry experience.

Further, after the machinery upgrade and acquisitions set out in the section headed "Future Plans and Use of Proceeds", the Directors believe that the production capability of the Group will be strengthened, providing the Group with a competitive edge.

FINANCIAL REVIEW

Revenue

The Group's products are sold in the PRC, Hong Kong as well as overseas. The following table sets out a breakdown of the Group's revenue attributable to domestic and overseas sales of the Group's sewing threads for each of the two years ended 31 December 2017:

	Year ended 31 December				Rate of change
	2017		2016		
	HK$'000	**% of total revenue**	HK$'000	% of total revenue	%
PRC	**36,995**	**49.8**	38,733	53.3	(4.5)
Hong Kong	**9,617**	**12.9**	5,964	8.2	61.3
Overseas	**27,759**	**37.3**	27,927	38.5	(0.6)
	74,371	**100.0**	72,624	100.0	2.4

Note: For the years ended 31 December 2017 and 2016, the Group exported its products to countries including but not limited to UAE, Mauritius, Australia, Germany and the United Kingdom.

The following table sets out the breakdown of the revenue by product that the Group offers for sale for each of the two years ended 31 December 2017:

	Year ended 31 December				Rate of change
	2017		2016		
	HK$'000	**% of total revenue**	HK$'000	% of total revenue	%
100% spun polyester sewing threads	**68,369**	**91.9**	65,267	89.9	4.8
Other threads *(Note)*	**6,002**	**8.1**	7,357	10.1	(18.4)
	74,371	**100.0**	72,624	100.0	2.4

Note: Other threads comprise textured polyester series, elastic filament sewing threads and weft yarn.

The selling price of the Group's products primarily depends on, among other things, costs of materials, labour costs and the specification requirements of the products. The Group generally determines the price of its products, including 100% spun polyester sewing threads and other threads, on a "cost-plus" basis, which comprises mainly the cost of raw materials, labour costs and the profit margin of the Group.

The Group's revenue increased to approximately HK$74.4 million for the year ended 31 December 2017 from approximately HK$72.6 million for the year ended 31 December 2016, representing an increase of approximately 2.4%. Such increase in the Group's revenue was mainly attributable to an increase in sales in the Hong Kong market.

Cost of sales

The Group's cost of sales primarily consists of direct material costs, processing fees and direct labour costs. The cost of sales increased to approximately HK$48.9 million for the year ended 31 December 2017 from approximately HK$45.6 million for the year ended 31 December 2016, representing an increase of approximately 7.1%. The Group's cost of sales increased along with the increase in the Group's revenue for the year ended 31 December 2017.

Gross profit and gross profit margin

The Group's gross profit decreased to approximately HK$25.5 million for the year ended 31 December 2017 from approximately HK$27.0 million for the year ended 31 December 2016, representing a decrease of approximately 5.5%. The decrease was mainly attributable to the appreciation of Renminbi against Hong Kong dollars. The Group's gross profit margin decreased to approximately 34.3% for the year ended 31 December 2017 from approximately 37.2% for the year ended 31 December 2016, which was also a result of the appreciation of Renminbi against Hong Kong dollars.

Other losses, net

The Group's other losses, net increased to approximately HK$19.5 million for the year ended 31 December 2017 from approximately HK$8.8 million for the year ended 31 December 2016, representing an increase of approximately 121.5%. Such increase was mainly attributable to the increase in non-recurring listing expenses from approximately HK$6.6 million for the year ended 31 December 2016 to approximately HK$18.5 million for the year ended 31 December 2017 and incurrence of exchange loss.

Selling expenses

Selling expenses mainly consist of staff costs of the sales department, transportation expenses and office expenses. Selling expenses decreased to approximately HK$6.4 million for the year ended 31 December 2017 from approximately HK$7.0 million for the year ended 31 December 2016, representing a decrease of approximately 7.8%. The decrease in the Group's selling expenses was mainly attributable to the decrease in staff costs of the sales department.

Administrative expenses

Administrative expenses primarily consist of staff costs of the administration department, rental expenses, auditor's remuneration, directors' remuneration, severance payment and office expenses. Administrative expenses increased to approximately HK$9.8 million for the year ended 31 December 2017 from approximately HK$7.8 million for the year ended 31 December 2016, representing an increase of approximately 26.8%. Such increase was mainly attributable to the increase in auditor's remuneration, severance payment and Directors' remuneration.

Listing expenses

For the year ended 31 December 2017, the Group recognised non-recurring listing expenses of approximately HK$18.5 million in the consolidated statement of profit or loss while listing expenses of approximately HK$6.6 million were recorded for the year ended 31 December 2016. Hence, the financial results of the Group for the year ended 31 December 2017 have been significantly affected by the increase in the listing expenses.

Finance costs

The Group's finance costs decreased by approximately HK$0.6 million, or approximately 20.8%, from approximately HK$2.9 million for the year ended 31 December 2016 to approximately HK$2.3 million for the year ended 31 December 2017, which was due to a decrease in average loan balance for the year ended 31 December 2017.

Loss before income tax

As a result of the foregoing, the Group recorded a loss before income tax of approximately HK$12.5 million for the year ended 31 December 2017 as opposed to a profit before income tax of approximately HK$0.6 million for the year ended 31 December 2016. Should the non-recuring listing expenses of approximately HK$18.5 million be excluded, the profit before income tax would be approximately HK$6.1 million.

Income tax expenses

The income tax expenses of the Group decreased from approximately HK$1.1 million for the year ended 31 December 2016 to approximately HK$0.7 million for the year ended 31 December 2017. The effective tax rate decreased from approximately 176.5% for year ended 31 December 2016 to approximately negative 5.6% for the year ended 31 December 2017, which was mainly due to the fact that the non-recuring listing expenses of approximately HK$18.5 million could not be deducted for the computation of corporate income tax.

Total comprehensive loss attributable to the owners of the Company

The total comprehensive loss attributable to owners of the Company increased to approximately HK$8.1 million for the year ended 31 December 2017 from approximately HK$6.0 million for the year ended 31 December 2016, representing an increase of approximately 33.6%. If the non-recurring listing expenses of approximately HK$18.5 million (31 December 2016: approximately HK$6.6 million) were excluded, the Group's adjusted total comprehensive income attributable to owners of the Company for the year ended 31 December 2017 would be approximately HK$10.5 million, representing an increase of approximately 1,895.2% as compared to the adjusted total comprehensive income attributable to owners of the Company for the year ended 31 December 2016 of approximately HK$0.5 million.

Basic and diluted loss per Share

The Company's basic and diluted loss per Share for the year ended 31 December 2017 was approximately HK2.16 cents (2016: HK 0.08 cents), representing an increase of approximately HK 2.08 cents, or approximately 2,600.0%, which is in line with the increase in net loss for the year attributable to the owners of the Company, when compared to the year ended 31 December 2016.

Final dividend

The Board did not recommend the payment of final dividend for the year ended 31 December 2017 (2016: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 31 December 2017, the Group's operations were primarily financed through its financing activities. The Directors believe that in the long term, the Group's operations will continue to be funded by a combination of cash generated from the Group's operating activities and financing activities.

The Group's cash and bank balances amounted to approximately HK$57.9 million and approximately HK$0.8 million as at 31 December 2017 and 2016, respectively. The functional currency of the Group is the Hong Kong dollar. As at 31 December 2017, 96.4% of the Group's cash and bank balances were denominated in the functional currency (31 December 2016: 0.1%) and the remaining 3.6% (31 December 2016: 99.9%) in other currencies, mainly the Renminbi.

As at 31 December 2017 and 2016, the Group had net current assets of approximately HK$64.9 million and approximately HK$49.8 million, respectively, which included trade receivables, prepayments, deposits and other receivables, inventories, cash and cash equivalents, pledged deposits. The Group's current ratio increased from approximately 1.9 as at 31 December 2016 to approximately 2.3 as at 31 December 2017. Such increase was mainly due to the increase in cash and cash equivalents as at 31 December 2017. The Group's bank borrowings decreased from approximately HK$36.9 million as at 31 December 2016 to approximately HK$22.6 million as at 31 December 2017. Such decrease was mainly due to the sufficient cash flows for the year ended 31 December 2017.

GEARING RATIO

The Group's gearing ratio is calculated based on net debt (including interest-bearing bank borrowings, trade payables and other payables and accruals, less cash and cash equivalents) divided by the total equity plus net debt at the respective reporting date. The gearing ratio was not applicable to the Group as at 31 December 2017 as its cash and bank balances were more than its bank borrowings. As at 31 December 2016, the gearing ratio was approximately 47.0%. The Group believes that the bank balances and the bank borrowings provide adequate liquidity to satisfy the Group's funding requirements.

COMMITMENTS

The Group's operating lease commitments were primarily related to leases of land and buildings and office equipment For each of the two years ended 31 December 2017, the Group had commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Within one year	**1,930**	1,866
In the second to fifth years, inclusive	**6,485**	6,303
After five years	**884**	2,416
	9,299	10,585

As at 31 December 2017, the Group also had capital commitments amounting to approximately HK$6.6 million (as at 31 December 2016: Nil).

CAPITAL STRUCTURE

There has been no change in the capital structure of the Group since the Listing. The share capital of the Group only comprises ordinary Shares.

As at 31 December 2017, the Company's issued share capital amounted to HK$8.0 million, divided by 800,000,000 shares of HK$0.01 each.

Details of changes in the Company's share capital for the year ended 31 December 2017 are set out in note 26 to the consolidated financial statements of this annual report.

SIGNIFICANT INVESTMENTS

As at 31 December 2017, the Group did not hold any significant investments (as at 31 December 2016: Nil).

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 22 June 2017, the Group completed a group reorganisation (the "**Reorganisation**"), details of which are set out in the section headed "History, Reorganisation and Corporate Structure" of the Prospectus. Subsequent to the completion of the Reorganisation and up to 31 December 2017, the Group did not have any acquisitions or disposals of subsidiaries and affiliated companies.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as those disclosed in the Prospectus, the Group currently has no other plans for material investments and capital assets.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have material contingent liabilities (as at 31 December 2016: Nil).

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to foreign currency risk when it enters into transactions which are not denominated in the Group's functional currency. Such exposure mainly relates to the distribution and sale of the Group's products and purchases of raw materials in the PRC. The Group currently does not have a foreign currency hedging policy. Yet, the Group's management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise. The sensitivity analysis of the Group's exposure to foreign exchange risk and other financial risks are set out in note 38 to the consolidated financial statements of this annual report.

PLEDGE OF ASSETS

For each of the two years ended 31 December 2017, the following assets were pledged to banks to secure certain banking borrowings granted to the Group:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Property, plant and equipment	**–**	4,212
Available-for-sale investment	**4,474**	4,305
Trade receivables	**12,593**	6,405
Pledged deposits	**9,000**	9,000
Assets classified as held for sale	**–**	3,298
	26,067	27,220

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group employed a total of 178 employees (as at 31 December 2016: 206), of whom 173 were located in the PRC and 5 were located in Hong Kong. The Group's staff costs mainly comprised wages and salaries, social insurance, housing provident fund and severance payments. For the years ended 31 December 2017 and 2016, the Group's total staff costs (excluding Directors' emoluments) amounted to approximately HK$15.2 million and HK$18.6 million, respectively. The Group offers remuneration packages comprising basic salaries, discretionary bonuses and allowances to its management and office staff. For the workers at the Guangzhou Production Facilities, the Group offers them salaries above the minimum wage, promotion opportunities and budgets for social events such as birthday celebrations.

The remuneration committee of the Company is responsible for reviewing and determining the remuneration packages of the Directors and senior management members with reference to the salaries paid by comparable companies, time commitment and responsibilities, employment conditions elsewhere in the Group and desirability of performance-based remuneration. Any discretionary bonus and other merit payments are linked to the profit performance of the Group and the individual performance of the Directors and senior management members. The Company adopted a share option scheme (the "**Share Option Scheme**") on 24 November 2017, under which the Company may grant options to, among others, any employees (full-time or part-time) or Directors with a view to rewarding them for their contributions to the Group, giving incentives to them for optimising their performance and efficiency and attracting as well as retaining those whose future contributions are important to the long-term growth and profitability of the Group. Since the adoption of the Share Option Scheme and up to the date of this annual report, no share options have been granted pursuant to the Share Option Scheme.

COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended 31 December 2017, the Group mainly carried out its businesses in Hong Kong and the PRC. As disclosed in the Prospectus, Guangzhou Xinhua Thread Co., Ltd.* (廣州新華線業有限公司), being an indirect wholly-owned subsidiary of the Company, had failed to make social security fund and/or housing provident fund payments for its employees during the period from 1 January 2015 to 30 June 2017. Since July 2017, the Group has made full contribution to these funds for its employees to the extent required by the relevant authorities in the PRC or has accordingly made provisions for any unpaid contributions.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries and save as disclosed above, the Group has in all material respects complied with all relevant laws, rules and regulations that have a significant impact on the Group and its operations in Hong Kong and the PRC.

ENVIRONMENTAL POLICY

To minimise the impact of the Group's business on the environment, energy saving measures and eco-friendly measures have been adopted at the office. The Group encourages its employees to reduce energy consumption and will continue to promote a positive attitude in relation to environmental protection. For the year ended 31 December 2017, the Group had complied with the relevant regulatory requirements in relation to environmental laws and regulations that would have a significant impact on the Group.

RELATIONSHIP WITH STAKEHOLDERS

Employees are considered to be one of the most important factors that contribute to the productivity of the Group. Employees of the Group are mainly provided with on-the-job training as well as remuneration packages and allowances.

The Group also communicates closely with its customers to obtain valuable feedback and provides them with information about the Group's products and trends in the sewing threads market. The Group has maintained business relationships with its five largest customers for a period ranging from approximately four months to 19 years, respectively. Likewise, the Group has also established stable relationships with its suppliers. As such, the Directors believe that the Group has developed a trustworthy and reliable reputation as well as a strong partnership with its customers and suppliers.

* For identification purposes only.

USE OF PROCEEDS

The Shares were successfully listed on GEM of the Stock Exchange on 15 December 2017 (the "**Listing Date**"). The Group raised the net proceeds of approximately HK$40.7 million from the Share Offer after deducting commission and expenses borne by the Company in connection with the Share Offer (the "**Net Proceeds**"). The Net Proceeds are intended to be used in accordance with the proposed implementation plans as disclosed under the section headed "Future Plans and Use of Proceeds" in the Prospectus. As at 31 December 2017, the unutilised Net Proceeds amounted to approximately HK$40.7 million.

The following table sets forth a breakdown of the use of the Net Proceeds during the period from the Listing Date up to 31 December 2017:

	Net proceeds available HK$ million	**Utilised** HK$ million	**Unutilised** HK$ million
Upgrading the Group's machinery for the production of 100% spun polyester sewing threads for industrial use	20.3	–	20.3
Upgrading the Group's machinery for the production of 100% spun polyester sewing threads for domestic use	7.7	–	7.7
Acquiring new cone winding machines	4.1	–	4.1
Acquiring new machinery for the production of nylon threads	3.7	–	3.7
Setting up a sales office in Zhejiang province	1.2	–	1.2
Working capital and other general corporate purposes of the Group	3.7	–	3.7
	40.7	–	40.7

Since the Listing date is close to 31 December 2017, being the Company's year-end date, the Company is in the preliminary stage of carrying out its implementation plan and business strategies as disclosed in the Prospectus.

FUTURE PROSPECTS

The Directors envisage that there are considerable business opportunities in the sewing threads industry. With the financial position strengthened and credibility enhanced from the Listing, the Group has confidence in capturing more business opportunities in the sewing threads industry and implementing its expansion plan set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

The Group places much emphasis on satisfying customers' needs with high quality and differentiated products and thus maintaining long-term business relationships with its customers. Apart from the machinery upgrade and acquisition, the Company plans to set up a sales office in Zhejiang province with a view to expand its sales network and explore new business opportunities to further promote growth of the Group.

EXECUTIVE DIRECTORS

Mr. Wong Kwok Wai, Albert (黃國偉), aged 58, was appointed as a Director of the Company and the chairman of the Board on 18 August 2016 and re-designated as an executive director on 23 June 2017. He is also the chief executive officer, the chairman of the nomination committee of the Company, one of the Group's controlling shareholders, as well as a director of each of the Group's subsidiaries. Mr. Wong is primarily responsible for the management and overall strategic planning and development of the Group. Mr. Wong has over 30 years of experience in accounting and assurances.

Mr. Wong served on Panel B of the disciplinary panel of the Hong Kong Institute of Certified Public Accountants from February 2005 to December 2017 and he has previously served on various committees, including administration and finance committee, china affairs committee, disciplinary panel, ethics committee, legal committee and taxation committee. Mr. Wong has been an honorary life member of the Hong Kong Institute of Accredited Accounting Technicians Limited since June 1999 and was its president during the period from May 1995 to June 1998.

Mr. Wong obtained his higher diploma in accountancy from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) in November 1982. Mr. Wong was admitted as a fellow of the Hong Kong Institute of Certified Public Accountants and as an associate of the Institute of Chartered Accountants in England and Wales in November 1992 and February 2008, respectively.

Mr. Wong did not hold other directorship in any other listed or public companies, of which the securities are listed on any securities market in Hong Kong or overseas in the three preceding years.

Mr. Lee Wing Hong (李永康), aged 42, was appointed as an executive director of the Company on 23 June 2017. Mr. Lee is also the chief financial officer of the Company and is primarily responsible for the financial management and control of the Group. Mr. Lee has over 15 years of experience in accounting and auditing.

Mr. Lee obtained an honours diploma in accounting from Hong Kong Shue Yan College (now known as the Hong Kong Shue Yan University) in March 2000. Mr. Lee was admitted as a member of the Hong Kong Institute of Certified Public Accountants in March 2006. He was also admitted as an associate member of the Association of International Accountants in November 2005.

Mr. Lee did not hold other directorship in any other listed or public companies, of which the securities are listed on any securities market in Hong Kong or overseas in the three preceding years.

NON-EXECUTIVE DIRECTOR

Mr. Ng Chan Lam (伍燦林), aged 69, was appointed as the non-executive director of the Company on 23 June 2017. Mr. Ng is primarily responsible for the marketing affairs of the Group. Mr. Ng has abundant experience in sales and marketing. Prior to joining the Group, Mr. Ng has served various positions at Dickson Concepts (International) Limited (stock code: 113), a company listed on the Main Board of the Stock Exchange and engaged in the industry of textiles, clothing and personal care items. He served as an executive director of the company from July 1994 to December 2015.

Mr. Ng graduated from Concordia University, Canada and received his bachelor's degree in commerce, majoring in management, in June 1976.

Save as disclosed above, Mr. Ng did not hold other directorship in any other listed or public companies, of which the securities are listed on any securities market in Hong Kong and overseas in the three preceding years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. To King Yan, Adam (杜景仁), aged 58, was appointed as an independent non-executive director on 24 November 2017. Mr. To is also a member of each of the audit committee, the remuneration committee and the nomination committee of the Group. Mr. To has been serving as a partner of K.B. Chau & Co., Solicitors since February 1989, a firm of solicitors in Hong Kong, with his practice focusing on conveyancing and litigation. Since August 2009, Mr. To has been an independent non-executive director of Rykadan Capital Limited (stock code: 2288), a company listed on the Main Board of the Stock Exchange.

Mr. To graduated from the University of London in August 1983 with a bachelor's degree in law. Mr. To was admitted as a solicitor of the Supreme High Court of Hong Kong, a barrister of High Court of Australia and a solicitor of the Supreme Court of England and Wales in November 1986, June 1990 and May 1990, respectively. Mr. To was also appointed as a China Appointed Attesting Officer and the Civil Celebrant of Marriages in May 1996 and July 2011, respectively.

Save as disclosed above, Mr. To did not hold other directorship in any other listed or public companies of which the securities are listed in any securities market in Hong Kong or overseas in the three preceding years.

Dr. Yeung Ngai Man, John (楊毅敏), aged 52, was appointed as an independent non-executive director on 24 November 2017. Mr. Yeung is also the chairman of the remuneration committee and a member of the audit committee of the Group.

Dr. Yeung graduated from the University of Edinburgh in July 1988 with a bachelor's degree in medicine and a bachelor's degree in surgery. Dr. Yeung also obtained a diploma in geriatric medicine from the Royal College of Physicians of London, a diploma in Child Health from the Royal Colleges of Physicians & Surgeons of Ireland, a diploma in genito-urinary medicine from the Society of Apothecaries of London in July 1993, September 1993 and December 1999, respectively. Dr. Yeung was elected to the membership of the Royal College of Physicians of the United Kingdom as well as the Hong Kong College of Physicians in July 1992 and January 1996, respectively.

Dr. Yeung commenced his own medical practice in July 2005. Prior to this, he served as a medical officer at Hong Kong Sanatorium & Hospital during the period from November 1993 to June 2005. To enhance his skills in business management, he obtained a diploma marketing from the Chartered Institute of Marketing in June 1990 and received a master's degree in business and administration from Warwick Business School in September 1990.

Dr. Yeung did not hold other directorship in any other listed or public companies, of which the securities are listed on any securities market in Hong Kong or overseas in the three preceding years.

Mr. Sung Alfred Lee Ming (宋理明), aged 60, was appointed as an independent non-executive director on 24 November 2017. Mr. Sung is also the chairman of the audit committee, a member of each of the remuneration committee and the nomination committee of the Group. Mr. Sung has over 30 years of experience in accounting and assurances.

Mr. Sung graduated from La Trobe University in Australia in March 1984 with a bachelor's degree in economics. Mr. Sung was admitted as a fellow of the Taxation Institute of Australia and a member and fellow of the Hong Kong Institute of Certified Public Accountants in November 1987, December 1987 and February 1995, respectively. He was also admitted as an associate of CPA Australia and Chartered Accountants Australia and New Zealand in March 1986 and April 1989, respectively.

Mr. Sung has been the sole proprietor of Alfred Sung & Co. since 1999 and he is primarily responsible for overseeing audit and taxation works. Currently, Mr. Sung serves as an executive director of Modern Living Investments Holdings Limited (stock code: 8426), a company listed on GEM. From April 2012 to October 2014, Mr. Sung served as an independent non-executive director of TC Orient Lighting Holdings Limited (stock code: 515), a company listed on the Main Board of the Stock Exchange.

Save as disclosed above, Mr. Sung did not hold other directorship in any other listed or public companies, of which the securities are listed on any securities market in Hong Kong or overseas in the three preceding years.

SENIOR MANAGEMENT

Mr. She Siu Ming (佘少明), aged 59, is the director and deputy general manager of Guangzhou Xinhua Thread Co., Ltd., an indirect wholly-owned subsidiary of the Company ("**Guangzhou Xinhua**"). Mr. She is primarily responsible for the management of business operations of Guangzhou Xinhua as well as the internal control of the Group. Mr. She joined the Group in March 2002.

Mr. She graduated from the Chinese University of Hong Kong in December 1983 with a bachelor's degree in business administration. Mr. She was admitted as a fellow of the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) in February 1997.

Ms. Liu Jinghui (劉敬慧), aged 44, is the financial controller of Guangzhou Xinhua. Ms. Liu is primarily responsible for the financial control of Guangzhou Xinhua. Ms. Liu joined the Group in August 1994.

Ms. Liu received her associate degree in polymer chemical engineering from the South China University of Technology (華南理工大學) in the PRC in July 1994. She also obtained qualifications as a registered tax adviser from the Department of Personnel of the Guangdong Province (廣東省人事廳) in October 2004.

Mr. Lui Hak Kong (呂克剛), aged 53, is the production manager of Guangzhou Xinhua. Mr. Lui is primarily responsible for the production management as well as quality control of Guangzhou Xinhua. Mr. Lui joined the Group in June 1996.

Prior to joining the Group, Mr. Lui worked for Dik Sun Dyeing Factory Ltd. as a person-in-charge for its laboratory and quality control from June 1990 to April 1996. From June 1983 to March 1990, Mr. Lui worked as a merchandiser and site leader of Fang Brothers Knitting Limited, which was a knitting company.

Mr. Wong Pak Yip (黃百業), aged 51, is the sales manager of Guangzhou Xinhua. Mr. Wong is primarily responsible for the sales and marketing of the Group. Mr. Wong joined the Group in July 1990.

Mr. Wong completed a post-secondary five course at Sha Tin Technical Institute (now known as Hong Kong Institute of Vocational Education (Sha Tin)), majoring in retail supervision, in July 1997. Prior to joining the Group, Mr. Wong worked for Unimix Limited, a garment manufacturing and trading company, as a sales assistant from August 1988 to May 1990. From August 1986 to July 1988, Mr. Wong worked for Sun Hop Kee Garment Factory, a garment production company, as a merchandiser.

None of the members of the senior management of the Group has been a director of any listed or public companies, of which the securities are listed on any securities market in Hong Kong or overseas in the three preceding years.

COMPANY SECRETARY

Mr. Chan Yiu Tung, Enoch (陳耀東), aged 51, was appointed as the company secretary and compliance officer of the Company on 18 August 2016 and 23 June 2017, respectively. Mr. Chan obtained his bachelor's degree of art in accountancy from City University of Hong Kong in November 1992 and was admitted as a member of the Hong Kong Institute of Certified Public Accountants in February 1997 and a fellow of the Association of Chartered Certified Accountants in April 2001. From June 2006 to December 2011, Mr. Chan served as an executive director of the tax department of Ernst & Young, an international accounting firm.

Further, Mr. Chan served as a partner in the tax department of the Guangzhou Branch of Grant Thornton, an international accounting firm, from October 2012 to October 2015 where he was primarily responsible for developing the tax practice in Guangzhou. Mr. Chan has also been serving as an independent director of Natural Health Trends Corp. (Stock Code: NHTC), an international direct-selling and e-commerce company listed on the NASDAQ Stock Market LLC, since December 2015 and is responsible for supervising and providing independent advice to the board of this Company.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board believes that cultivating and maintaining a culture focused on good corporate governance is essential to effect strong business growth and continue the efficient management of the Company. The Directors are of the view that strong corporate governance practices can safeguard the interests of and ensure accountability to the shareholders of the Company (the "**Shareholders**") as a whole.

The corporate governance code (the "**CG Code**") as set out in Appendix 15 to the GEM Listing Rules has been adopted by the Board. Nevertheless, the Directors of the Company are committed to regularly reviewing its corporate governance practices to ensure conformity with the standard set out in the CG Code, as well as meeting the rising expectation of the Shareholders and other stakeholders of the Company.

Except for the deviation from code provision A.2.1 of the CG Code, details of which are set out in the section headed "Chairman and Chief Executive Officer" in this corporate governance report, the Board is of the view that the Company has complied with the code provisions of the CG code for the period from the Listing Date up to the date of this annual report (the "**Relevant Period**").

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the standard of dealings regarding securities transactions by the Directors equivalent to the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. The Directors have all confirmed, having been made specific enquiry by the Company, that they have complied with the required standard of dealings and the required standard concerning securities transactions by the Directors during the Relevant Period.

BOARD OF DIRECTORS

Composition of the board

The Board currently comprises:

Executive Directors	
Mr. Wong Kwok Wai, Albert *(Chairman and chief executive officer)*	*(appointed as a Director on 18 August 2016 and re-designated as an executive Director on 23 June 2017)*
Mr. Lee Wing Hong	*(appointed on 23 June 2017)*
Non-executive Director	
Mr. Ng Chan Lam	*(appointed on 23 June 2017)*
Independent non-executive Directors	
Mr. To King Yan, Adam	*(appointed on 24 November 2017)*
Dr. Yeung Ngai Man, John	*(appointed on 24 November 2017)*
Mr. Sung Alfred Lee Ming	*(appointed on 24 November 2017)*

The biographical details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

Except as disclosed in the section headed "Biographical Details of Directors and Senior Management", there has been no financial, business, family or other material relationship among the Directors.

Each of the independent non-executive Directors has provided a written confirmation of his independence and the Company regards them as independent pursuant to rule 5.09 of the GEM Listing Rules.

The Board will hold regular board meetings at least four times a year at approximately quarterly intervals. Such meetings are expected to involve active participation, either in person or through electronic means of communication, of a majority of the Directors entitled to be present.

Below is the attendance record of each Director at the Board meetings held during the Relevant Period:

Name of Directors	Attendance/ number of meetings held
Mr. Wong Kwok Wai, Albert	1/1
Mr. Lee Wing Hong	1/1
Mr. Ng Chan Lam	1/1
Mr. To King Yan, Adam	1/1
Mr. Yeung Ngai Man, John	1/1
Mr. Sung Alfred Lee Ming	1/1

RESPONSIBILITIES OF THE BOARD

The Board is primarily responsible for the overall management and strategic planning and development of the Group, which may involve convening general meetings and reporting the Board's work at shareholders' meetings, determining business and investment plans, preparing annual financial budgets and final reports and formulating proposals for profit distributions. Day-to-day management is alternatively delegated to the executive Directors and senior management. The functions delegated to senior management are regularly reviewed by the Board to ensure that they are appropriately aligned with the Group's needs.

During the Relevant Period, the Company had three independent non-executive Directors and was at all times compliant with the requirements of the GEM Listing Rules, which specifies that the independent non-executive Directors must represent at least one third of the Board members with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has arranged appropriate insurance policies to cover the Directors' risk exposure/liabilities with respect to any legal actions against the Directors arising from corporate activities of the Company. Such insurance coverage is reviewed annually.

CORPORATE GOVERNANCE FUNCTIONS

During the Relevant Period, no committee for corporate governance has been established and the Board is thus responsible for performing the corporate governance functions outlined in code provision D.3.1 of the CG Code.

The Directors may hold Board meetings when necessary and include any relevant matters for discussion in the agenda as they see fit. A minimum of 14 days' notice of such Board meetings is given to all Directors. A draft agenda for each Board meeting typically accompanies the notice to give the Directors an opportunity to raise any other relevant issues for discussion in the meeting. Board papers and related materials to the meeting are circulated to each Director before each meeting for their perusal to ensure that they can make an informed decision to discharge their duty as a Director.

Draft minutes are also circulated to the Directors for their comments and review after each Board meeting is held, and the minutes of the Board and the Company's committees are kept by the company secretary of the Company. Each Board member and Director has access to the advice and service of the company secretary of the Company in order to comply with relevant procedures and applicable rules and regulations.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Directors recognise the importance of incorporating elements of good corporate governance in management structures and internal control procedures in order to achieve effective accountability.

During the Relevant Period, the Group has complied with the CG Code as set out in Appendix 15 to the GEM Listing Rules, except for the deviation from the code provision A.2.1 of the CG Code, which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Wong, who is the chairman of the Board as well as the chief executive officer of the Company, has been involved in the daily operations and management of the Group since 2008. The Directors consider that vesting the roles of the chairman of the Board and the chief executive officer of the Company in Mr. Wong will ensure strong and consistent leadership, facilitate the Group's business strategies and boost the effectiveness of the Company's operation. The Board will continue to review this arrangement and consider splitting the roles of the chairman of the Board and the chief executive officer of the Company when such role splitting is beneficial to the Group as a whole.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The articles of association of the Company (the "**Articles**") state that at each annual general meeting (the "**AGM**"), one third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. A Director retiring by rotation shall be eligible for re-election.

Independent non-executive Directors appointed are also subject to retirement by rotation and re-election according to the Articles. Independent non-executive Directors are required to notify the Company as soon as practicable if there is any change that may affect their independence and each of them must provide a written confirmation of his independence every year.

CONTINUOUS PROFESSIONAL DEVELOPMENT

To ensure that the Directors' contribution to the Board remains relevant and informed, the Directors are to participate in continuous professional development through which their knowledge and skills can be refreshed and strengthened. As part of the Directors' continuous professional development programme, newly appointed Directors are to receive a comprehensive, formal and tailored induction upon their appointment as a Director while existing Directors receive additional training when appropriate to ensure that they are aware of and are able to comply with the obligations pursuant to the GEM Listing Rules and any other statutory requirements. The company secretary of the Company is responsible for maintaining and updating records for the Directors' training sessions.

Before the Listing, all the Directors participated in a training session arranged by a professional firm and each Director was provided with relevant guidance materials with respect to the laws applicable to Directors, the roles and responsibilities of Directors and the Directors' duty to disclose their interest.

BOARD COMMITTEES

The Board established the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**") and the nomination committee (the "**Nomination Committee**") on 24 November 2017 in order to oversee particular functions of the Company. These committees of the Board have been established with written terms of reference that clearly outline their authorities, powers and duties. These terms of reference can be found on the websites of the Stock Exchange and the Company.

AUDIT COMMITTEE

The Audit Committee was established pursuant to rules 5.28 to 5.33 of the GEM Listing Rules and code provision C.3.3 of the CG Code. The Audit Committee is mainly responsible for reviewing financial information, monitoring the Company's financial reporting system and internal control procedures and maintaining the relationship with the Company's auditors.

The Audit Committee consists of three independent non-executive Directors, namely, Mr. Sung Alfred Lee Ming (the chairman), Dr. Yeung Ngai Man, John and Mr. To King Yan, Adam. No member of the current Audit Committee is a member of the previous independent auditor of the Company. The Audit Committee has reviewed this annual report as well as the consolidated results of the Group for the year ended 31 December 2017.

The current terms of reference state that the Audit Committee shall have at least four meetings annually. The Audit Committee held a meeting on 28 March 2018 to (i) review and approve the annual financial results in respect of the year ended 31 December 2017; (ii) discuss and consider issues significant to financial reporting, controls on operations and compliance, the effectiveness of the risk management and internal control systems; and (iii) review the appointment of the auditor and its relevant scope of work.

Below is the attendance record of each member of the Audit Committee during the Relevant Period:

Members of the Audit Committee	Attendance/ number of meetings held
Mr. Sung Alfred Lee Ming	1/1
Dr. Yeung Ngai Man, John	1/1
Mr. To King Yan, Adam	1/1

REMUNERATION COMMITTEE

The Remuneration Committee currently consists of three independent non-executive Directors, namely, Dr. Yeung Ngai Man, John (the chairman), Mr. Sung Alfred Lee Ming and Mr. To King Yan, Adam.

The Remuneration Committee is primarily responsible for making regular recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing the remuneration policy.

The current terms of reference state that the Remuneration Committee shall have at least one meeting annually.

No meeting was held by the Remuneration Committee during the Relevant Period.

Details regarding emoluments of the Directors and senior management of the Company for the year are outlined in note 8 to the consolidated financial statements of this annual report.

NOMINATION COMMITTEE

The Nomination Committee currently consists of three independent non-executive Directors, namely, Mr. Wong Kwok Wai, Albert (the chairman), Mr. To King Yan, Adam and Mr. Sung Alfred Lee Ming.

The Nomination Committee is mainly responsible for regularly reviewing the structure of the Board and making recommendations to the Board regarding any proposed change to the structure of the Board. Following the establishment of the Nomination Committee, the Company has adopted a board diversity policy in order to achieve diversity on the Board. As such, Board members are to be selected based on a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service.

The current terms of reference state that the Nomination Committee shall have at least one meeting annually. No meeting was held by the Nomination Committee during the Relevant Period.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors understand and recognise their responsibility (i) to prepare the consolidated financial statements of the Group; and (ii) to ensure that such financial statements are prepared to give a true and accurate view of the state of affairs, results and cash flows of the Group in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, the disclosure requirements of the Hong Kong Companies Ordinance as well as any internal standards deemed appropriate and necessary by the Directors in order to prepare the Group's consolidated financial statements. Further, the Directors also strive to offer a fair and comprehensive assessment of the Group's financial position and prospects and ensure timely publication of the financial statements of the Group. The Directors confirm that as at 31 December 2017, to the best of their knowledge, information and belief, having made all reasonable enquiries, they were not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The responsibility of the independent auditor of the Company is to form its independent opinion based on its audit on those consolidated financial statements prepared by the Board, and to report its opinion to the Shareholders. Further details of their reporting responsibility are set out in the auditor's report of this annual report.

Risk Management and Internal Control

The Board recognises its responsibility to ensure the effectiveness of the Group's risk management and internal control systems. As such, the Directors are committed to reviewing such systems regularly. During the Relevant Period, the Board, the Company's internal audit division and the Audit Committee conducted a review of the Group's risk management and internal control systems and were satisfied with their adequacy and effectiveness.

The Directors understand that the enforcement of risk management and internal control systems is essential to the Group's ability to manage and minimise risks that may affect the Group's efficiency and effectiveness, or inhibit it from achieving the business objectives.

During the year ended 31 December 2017, the Group engaged an external consulting firm as the Group's internal control adviser (the "**Internal Control Adviser**") to conduct a review on the internal control systems which included financial, operational, compliance, procedural and risk management functions. The Directors confirm that issues identified by the Internal Control Adviser have been properly addressed and/or resolved and that the current internal control and risk management mechanisms are adequate and appropriate for the Group's operations. In relation to the undertakings provided by the controlling shareholders of the Company in respect of the deed of non-competition, the details of which are outlined in the Prospectus, the independent non-executive Directors confirm that they have reviewed the enforcement of such undertakings and conclude that there are no outstanding issues regarding the undertakings that need to be raised with the Shareholders and the Company.

AUDITOR'S REMUNERATION

For the year ended 31 December 2017, the fees paid or payable to the Company's independent external auditor, Ernst & Young, for the audit services and non-audit services for the Group are approximately as follows:

Type of service	Amount HK$'000
Audit services	3,588
Non-audit services	601
	4,189

COMPANY SECRETARY

Mr. Chan Yiu Tung, Enoch was appointed as the company secretary of the Company (the "**Company Secretary**") on 18 August 2016. The biographical details of Mr. Chan are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. Pursuant to rule 5.15 of the GEM Listing Rules, Mr. Chan has undertaken no less than 15 hours of relevant professional training for the year ended 31 December 2017.

SHAREHOLDERS' RIGHTS

In order to protect their own rights and interests, Shareholders may propose separate resolutions in regard to substantial issues at Shareholders' meetings for consideration and voting. According to the GEM Listing Rules, all resolutions presented at Shareholders' meetings will be voted by poll, and after the relevant Shareholders' meeting, the results of such a poll will be published on the websites of the Stock Exchange and the Company. Pursuant to the Articles, an AGM is to be held annually in the relevant territory where the shares of the Company are listed, or elsewhere as may be determined by the Board. Any other meeting besides an AGM is deemed an extraordinary general meeting ("**EGM**").

PROCEDURES FOR SHAREHOLDERS TO CONVENE EXTRAORDINARY GENERAL MEETING

Extraordinary general meetings can be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition must be made in writing to the Board or the company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

Shareholders must send their written requisitions together with their full name, contact details and identification, and send them by post to the principal place of business of the Company in Hong Kong or by email for the attention of the company secretary of the Company, details of which are set out below:

Principal place of business of the Company in Hong Kong	:	Room 1006-7, 10/F., Kowloon Centre No. 33 Ashley Road Tsim Sha Tsui Kowloon Hong Kong
Email address	:	info@shenyouholdings.com

An extraordinary general meeting must be held within two months after the deposit of the requisition. If within 21 days after the deposit of the requisition, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself/themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

RIGHT OF RAISING ENQUIRIES

For queries about shareholdings, share transfer, registration and dividend payments, Shareholders should contact the Company's Hong Kong branch share registrar, whose details are set out in the section headed "Corporate Information" of this annual report.

PROCEDURES FOR SHAREHOLDERS TO PUT FORWARD PROPOSALS AT SHAREHOLDERS' MEETING

The Articles provide that Shareholders who wish to put a resolution to a vote may convene an EGM by means of requisition using the procedure set out above.

INVESTOR RELATIONS

The Company utilises various channels to communicate with its shareholders and investors, including (i) the AGM or EGM, which allows shareholders of the Company to comment and exchange views with the Board; (ii) the publication of interim, quarterly and annual reports; (iii) notices, announcements and circulars; and (iv) the Company's website at www.shenyouholdings.com.

The Directors confirm that there has been no material change to the constitutional documents of the Company during the Relevant Period.

The Directors are pleased to present this report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 18 August 2016. Through various reorganisation procedures, the Company became the holding Company of the Group upon completion of the Reorganisation. Further details of the Reorganisation are set out in the section headed "History, Reorganisation and Corporate Structure" of the Prospectus.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and the primary activities of its principal subsidiaries are the sale and manufacture of sewing threads. Details of the Group's principal activities are set out in note 1 to the consolidated financial statements of the Group. For the year ended 31 December 2017, there were no significant changes in the nature of the Group's principal activities.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and the consolidated statement of comprehensive income of this annual report. The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the Group's property, plant and equipment for the year ended 31 December 2017 are set out in note 13 to the consolidated financial statements of this annual report.

BUSINESS REVIEW

A business review of the Group's performance for the year ended 31 December 2017, the main issues impacting its results and financial position are set out in the section headed "Management Discussion and Analysis" of this annual report. In addition, a discussion of the likely future development of the Group's business is set out in the section headed "Chairman's Statement" of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's profitability, financial position, results of operations, business operations and prospects may be affected by a variety of risks including foreign currency risk, interest rate risk, credit risk and liquidity risk. The Group's risk management system and policies are shown in note 38 to the consolidated financial statements.

Further, the Group may also be exposed to other risks that may be beyond its control. In particular, the Group may experience material price fluctuations of fibre and yarn, both being raw materials principally used in the manufacturing process of sewing threads. The Group also faces business risks, including (i) failure to secure a supply as the Group does not enter into long-term supply contracts with its suppliers; (ii) any substandard or unsatisfactory performance of the Group's yarn manufacturers and dyeing suppliers; (iii) any unexpected disruption in the Guangzhou Production Facilities; and (iv) any labour shortage, increase in labour costs or other factors affecting labour supply in the PRC, each of which may materially and adversely affect the Group's operations, financial condition, results of operations and prospects.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the three years ended 31 December 2017 is set out in the section headed "Three Year Financial Summary" of this annual report.

SHARE CAPITAL

Details of the movements of the issued share capital of the Company for the year ended 31 December 2017 are set out in note 26 to the consolidated financial statements of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights pursuant to the Articles or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would require the Company to offer new shares on a pro-rata basis to its existing Shareholders.

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

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities since the Listing Date and up to the date of this annual report.

RESERVES

Details of the movements in the reserves of the Group during the year ended 31 December 2017 are set out in note 27 to the consolidated financial statements of the Group and in the consolidated statement of changes in equity of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution to Shareholders, calculated according to Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK$53.0 million (2016: nil).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, sales to the Group's largest customer and five largest customers represented approximately 28.1% (2016: approximately 28.3%) and 46.5% (2016: approximately 43.3%) of the Group's total revenue, respectively. For the year ended 31 December 2017, supplies attributable to the Group's largest supplier and five largest suppliers represented approximately 18.7% (2016: approximately 18.1%) and 64.0% (2016: approximately 61.7%) of the Group's total supplies, respectively.

To the Directors' best knowledge, none of the Directors or any of their close associates (as defined in the GEM Listing Rules) or any Shareholders who or which own more than 5% of the Company's issued share capital had any beneficial interest in any of the five largest customers and/or five largest suppliers of the Group during the year.

DIRECTORS

The Directors for the year ended 31 December 2017 and up to the date of this annual report are as follows:

Executive Directors

Mr. Wong Kwok Wai, Albert	*(appointed as a Director on 18 August 2016 and re-designated as an executive Director on 23 June 2017)*
Mr. Lee Wing Hong	*(appointed on 23 June 2017)*

Non-executive Director

Mr. Ng Chan Lam	*(appointed on 23 June 2017)*

Independent non-executive Directors

Mr. To King Yan, Adam	*(appointed on 24 November 2017)*
Dr. Yeung Ngai Man, John	*(appointed on 24 November 2017)*
Mr. Sung Alfred Lee Ming	*(appointed on 24 November 2017)*

Pursuant to Article 112 of the Articles, the Directors shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an additional Director but the number of Directors so appointed shall not exceed the maximum number determined from time to time by the Shareholders in a general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Pursuant to Article 108(a) of the Articles, notwithstanding any other provisions in the Articles, at each annual general meeting, one third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

BIOGRAPHICAL DETAILS OF DIRECTORS

For biographical details of the Directors, please refer to the section headed "Biographical Details of Directors and Senior Management" of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company pursuant to which he has agreed to act as an executive Director for an initial term of three years with effect from the Listing Date. Either party is entitled to give not less than one month notice to terminate the service agreement.

The non-executive Director has entered into a service agreement with the Company pursuant to which he has agreed to act as a non-executive director for an initial term of three years with effect from the Listing Date. Either party is entitled to give not less than one month notice to terminate the service agreement.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company to which he has agreed to act as an independent non-executive Director for a fixed term of three years with effect from the Listing Date. Except for the Director's fees, no independent non-executive Director is to receive any other emolument for acting as an independent non-executive Director.

Save as disclosed above, none of the Directors has proposed or entered into any service agreement or letter of appointment with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than the statutory compensation.

CONFIRMATION OF INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has provided the Company with a confirmation of independence pursuant to rule 5.09 of the GEM Listing Rules. As such, the Company considers all the independent non-executive Directors to be independent as at the date of this annual report.

PERMITTED INDEMNITY PROVISIONS

Pursuant to the Articles, a Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may incur or sustain in or about the execution of the duties of his office or otherwise in relation thereto.

Appropriate directors' and officers' liability insurance coverage has been arranged for the Directors and officers of the Company.

EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals are set out in notes 8 and 9 to the consolidated financial statements of this annual report.

EMOLUMENT POLICY

The Directors receive compensation in the form of an annual director's fee while members of the senior management receive compensation in the form of salaries, discretionary bonuses and other allowances. The Group also reimburses the Directors and senior management for expenses which are necessarily and reasonably incurred in relation to the Group's operations or in the course of discharging their duties to the Group. The remuneration committee of the Company regularly reviews and determines the remuneration packages of the Directors and senior management, taking into account factors including, salaries payable by comparable companies, employment conditions, responsibilities and the individual performance of the Directors and senior management.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ANY ASSOCIATED CORPORATION

As at 31 December 2017, the interests or short positions of each of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**"), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) recorded in the register required to be kept under section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Name of Director	Nature of interest/ Holding capacity	Number of ordinary shares held	Percentage of issued share capital of the Company *(Note 1)*
Mr. Wong Kwok Wai, Albert	Interest of a controlled corporation	600,000,000 (L) *(Notes 2, 3)*	75%

Notes:

1. As at the date of this annual report, the Company's issued ordinary share capital was HK$8,000,000 divided into 800,000,000 Shares of HK$0.01 each.

2. Three Gates Investment Limited ("**Three Gates Investment**"), a company incorporated in the British Virgin Islands on 15 August 2016, is wholly and beneficially owned by Mr. Wong, who is the chairman and an executive Director of the Company. Therefore, Mr. Wong is deemed to be interested in 600,000,000 Shares held by Three Gates Investment by virtue of the SFO.

3. The letter "L" denotes the person's long position in the Shares.

Except as disclosed above, as at 31 December 2017, none of the Directors or the chief executive of the Company had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be recorded in the register kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange according to rules 5.46 to 5.67 of the GEM Listing Rules.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES, UNDERLYING SHARES

To the best knowledge of the Directors, as at 31 December 2017, the following persons or corporations (other than the Directors and the chief executive of the Company) who had interests and/or short positions in the shares or underlying shares of the Company which would be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Substantial Shareholder	Nature of interest/ holding capacity	Number of ordinary shares held	Percentage of issued share capital of the Company *(Note 1)*
Three Gates Investment	Beneficial owner	600,000,000 (L) *(Notes 2, 3)*	75%

Notes:

1. As at the date of this annual report, the Company's issued ordinary share capital was HK$8,000,000 divided into 800,000,000 Shares of HK$0.01 each.

2. Three Gates Investment, a company incorporated in the British Virgin Islands on 15 August 2016, is wholly and beneficially owned by Mr. Wong who is the chairman and an executive Director of the Company. Therefore, Mr. Wong is deemed to be interested in 600,000,000 Shares held by Three Gates Investment by virtue of the SFO.

3. The letter "L" denotes the person's long position in the Shares.

Except as disclosed above, as at 31 December 2017, the Directors are not aware of any interests and short positions owned by any other parties, other than a Director or the chief executive of the Company who held interests or short positions in the shares and the underlying shares of the Company which were required to be recorded under the provision of Divisions 2 and 3 of Part XV of the SFO, or, who was interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

SHARE OPTION SCHEME

Eligible participants may be granted share options in line with the Share Option Scheme. The following is a summary of the major terms of the Share Option Scheme:

(a) Purpose

The purpose of the Share Option Scheme is to attract and retain the best available personnel of the Group, to provide additional incentive for employees working full-time and part-time as well as other eligible personnel under the Share Option Scheme and to promote the success of the business of the Group.

(b) Eligible participants

Eligible participants under the Share Option Scheme include (i) any full-time or part-time employee of any member of the Group; (ii) any consultant or adviser of any member of the Group; (iii) any director (including executive, non-executive or independent non-executive directors) of any member of the Group; (iv) any substantial shareholder of any member of the Group; and (v) any distributor, contractor, supplier, agent, customer, business partner or service provider of any member of the Group.

(c) Subscription price

The subscription price shall be determined solely by the Board and notified to a participant of the Share Option Scheme and shall be at least the higher of: (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option, provided that in the event of fractional prices.

(d) Time of exercise of options

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed 10 years from the date of grant subject to the provisions of early termination thereof.

(e) Grant of options

An offer for the grant of options shall remain open for acceptance for a period of seven days, including the day in which the offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of the option is HK$1.0.

(f) Maximum number of shares available for subscription

(i) The aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of the Company if this will result in the limit being exceeded.

(ii) Subject to sub-paragraphs (iii) and (iv) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company as from the date of adoption of the Share Option Scheme (excluding, or this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of all the Shares in issue upon the Listing Date.

(iii) The 10% limit as mentioned in sub-paragraph (ii) above may be refreshed at any time by approval of the Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled or lapse in accordance with the terms of the Share Option Scheme and other share option schemes of the Company) will not be counted for the purpose of calculated the limit as "refreshed". A circular must be sent to the Shareholders containing the information as required pursuant to the relevant GEM Listing Rules.

(iv) Subject to sub-paragraph (i) above, the Company may seek separate approval from the Shareholders in general meeting for granting any option under the Share Option Scheme beyond the 10% limit under sub-paragraph (ii) and (iii) above provided the options under the Share Option Scheme in excess of the limit are granted only to participants specifically identified by the Company before such approval is sought. In such event, the Company must send a circular to the Shareholders containing a generic description of the specified persons who may be granted such options under the scheme, the number and term of such options to be granted and the purpose of granting such options to the specified persons with an explanation of how the terms of the options will serve the purpose and all other information required under the GEM Listing Rules.

(g) Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) under the Share Option Scheme or any other option schemes of the Company in any 12-month period must not exceed 1% of the total number of shares of the Company in issue, unless approved by the shareholders of the Company in the manner stipulated in the Share Option Scheme.

(h) Duration of the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten years commencing from the date on which the scheme is adopted and will expire on 24 November 2027.

(i) Termination of the Share Option Scheme

The Company, by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further options of the Share Option Scheme will be offered but those options granted prior to such termination shall continue to be valid and exercisable in accordance with the previous provisions of the Share Option Scheme.

No share option has been granted since the adoption of the Share Option Scheme.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except as disclosed in note 33 to the consolidated financial statements of this annual report, no Director or connected entity of a Director had any material interest, either directly or indirectly in any transactions, arrangements or contract of significance to the business of the Group, to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESSES

The Directors and the controlling shareholders of the Company have confirmed that for the year ended 31 December 2017 and up to the date of this annual report, none of the Directors, controlling shareholders of the Company or any of their respective close associates (as defined in the GEM Listing Rules), engaged in any businesses that competes or may compete with the business of the Group, or had any other conflict of interest with the Group.

On 24 November 2017, each of Mr. Wong Kwok Wai, Albert and Three Gates Investment, being the controlling shareholders of the Company, entered into a non-competition undertaking in favour of the Company, details of which were set out in the section headed "Relationship with our Controlling Shareholders — Non-competition Undertaking" of the Prospectus. Such undertakings have been fully complied with and enforced since the Listing Date and up to the date of this annual report.

The Board confirms that as at the date of this annual report, no other matters are required to be brought to the attention of the Shareholders and the potential investors.

Further, the independent non-executive Directors confirm that they have reviewed the enforcement of such undertakings and conclude that there are no outstanding issues regarding the undertakings that need to be raised with the Shareholders and the Company.

SANCTIONS UNDERTAKING

As disclosed in the Prospectus, the Company provided an undertaking to the Stock Exchange that it would not use the proceeds from the Share Offer or any funds raised through the Stock Exchange to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, countries that are sanctioned under international sanction laws, or any sanctioned government, entity or individual.

To ensure its compliance with this undertaking and to further enhance its risk management, the Group will continue to evaluate any business opportunities with those countries sanctioned under international sanction laws and will have delegated members of the senior management of the Company review the transaction documents from customers or potential customers from countries sanctioned under international sanctions laws.

INTERESTS OF THE COMPLIANCE ADVISER

In compliance with rule 6A.19 of the GEM Listing Rules, the Company has appointed Huabang Corporate Finance Limited ("**Huabang**") to be the compliance adviser. The Company has been informed by Huabang that neither Huabang nor its directors or employees or close associates has, or may have, any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities), which is required to be notified to the Company pursuant to rule 6A.32 of the GEM Listing Rules, except for the compliance adviser agreement entered into between the Company and Huabang dated 29 November 2017.

RELATED PARTY TRANSACTIONS

Information about related party transactions of the Group for the year ended 31 December 2017 are set out in note 33 to the consolidated financial statements of this annual report. Such related party transactions do not fall under the definition of connected transaction or continuing connected transaction under Chapter 20 of the GEM Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

The Group has not entered into any connected transactions or continuing connected transactions during the year ended 31 December 2017 which are required to be disclosed according to the requirements under the GEM Listing Rules. The Board confirms that the Company has complied with the applicable disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

MANAGEMENT CONTRACTS

For the year ended 31 December 2017, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed.

SUFFICIENCY OF PUBLIC FLOAT

The Directors confirm that since the date of Listing and up to the date of this annual report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has complied with the minimum public float as required under the GEM Listing Rules.

EVENTS AFTER THE YEAR ENDED 31 DECEMBER 2017

There is no material subsequent event undertaken by the Company or the Group after 31 December 2017 and up to the date of this annual report.

AUDITOR

Ernst & Young was appointed by the Directors as the auditor of the Company. A resolution for the reappointment of Ernst & Young as the auditor of the Company will be proposed at the forthcoming annual general meeting.

Shen You Holdings Limited
Wong Kwok Wai, Albert
Chairman and chief executive Director

Hong Kong, 29 March 2018

The Company is pleased to present the first annual Environmental, Social and Governance Report of the Group for the year ended 31 December 2017 (the "**ESG Report**"). This ESG Report, which has been prepared in accordance with the Environmental, Social and Governance Reporting Guide under Appendix 20 of the GEM Listing Rules, comprises two subject areas, namely, Environmental (Subject Area A) and Social (Subject Area B).

The Group is principally engaged in the manufacturing of polyester sewing threads and selling of them to customers in the PRC, Hong Kong and overseas countries. Over the years of the operations, the Group has been offering quality products and services to its customers and providing its employees with appropriate working conditions and employees' benefits. The Group places much emphasis on employees' safety, product quality and responsibility and environmental protection, which the Group believes are the key concerns of our stakeholders as well as the community. The ESG Report covers the environmental, social and governance performance of the Group's business during the year ended 31 December 2017.

The concerns of the Group's stakeholders largely influence the matters that are relevant and material to its business. Stakeholders of the Group include those that are affected by the Group's operations. Such stakeholders include shareholders, employees, clients and customers, as well as the environment and community. The Group values transparency in communicating with its stakeholders who may express their queries, thoughts or concerns regarding the content of the ESG report or the Group's sustainability issues to the Group via email at info@shenyouholdings.com.

A. ENVIRONMENTAL

Emissions and Use of Resources

The Group is principally engaged in the manufacturing and selling of polyester sewing threads. To ensure that it minimises the adverse impact caused to the environment, the Group is committed to upholding high environmental standards and adopting eco-friendly policies during the course of its entire business operations.

Manufacturing

The manufacturing process takes place in the PRC. The yarn production process and the dyeing process are subcontracted to external service providers. Accordingly, the Group's business does not cause any material adverse impact to the environment as no significant discharge of emissions or hazardous or non-hazardous pollutants are involved during the production process.

Despite this, the Group has implemented the following measures with a view to minimising the adverse impact that might cause to the environment:

- The Group ensures that the dyeing agents used in the dyeing process for the sewing threads conform to OEKO-TEX® STANDARD 100, an industry environmental standard issued by the International Association for Research and Testing in the Field of Textile Ecology.

- The quality control staff of the Group pays regular visits to the suppliers' dyeing facilities to monitor the dyeing process.

- Mr. She Siu Ming, the deputy general manager of Guangzhou Xinhua, reviews environmental standards and requirements applicable to the Group's operations to ensure compliance with any relevant environmental standards and requirements.

Selling

Besides customers in the PRC and Hong Kong, the Group also serves overseas customers. Despite this, the sales and marketing staff of the Group do not often take overseas business trips. Most of the sales and marketing efforts are done via electronic communication channels. As a result, the Group's carbon emissions created by air travel are limited. Its carbon emissions are mainly indirect greenhouse gases emitted by electricity consumption.

The Group is committed to operating in compliance with applicable environmental laws and regulations. During the year, the Group had complied in all material respects with the relevant environmental laws and regulations in the PRC that are important to the Group in relation to emissions and generation of waste.

Offices

The Group has offices in the PRC as well as in Hong Kong. Considering electricity consumption to be a major source of indirect gas emissions, the Group endeavours to minimise the impact of the Group's business on the environment by adopting some energy saving measures at the offices, which include the following:

- the room temperature is maintained at 25 degrees Celsius in summer;
- staff are reminded to switch off lightings and air-conditioning systems when they are not necessary;
- staff are reminded to pay close attention to water pipe maintenance to prevent any leakage of water;
- staff are encouraged to avoid idle computers and other office equipment;
- office equipment such as photocopiers are set to switch off automatically after office hours; and
- staff are encouraged to make the best use of the telecommunications system so as to avoid unnecessary travel arrangements.

In addition, the Group also takes the following eco-friendly measures at offices to ensure that the business of the Group is a responsible one:

- staff are reminded to consider whether it is necessary to print documents and whether it is possible to share the material or internal administrative documents via the electronic information system;
- staff are encouraged to reduce paper consumption by reusing letterheads, envelopes and printing double-sided and/or with recycled paper;
- staff are encouraged to bring their own cups instead of using paper cups; and
- printer cartridges and toners are recycled.

To achieve the aim of conserving energy or resources, the Group encourages its employees to protect the environment and reduce the consumption of resources. Further, the Group reviews the above-mentioned measures from time to time and where necessary, will make necessary adjustments to these measures. The Group will also explore other effective means which may contribute to the conservation of resources as well as the protection of the environment.

B. SOCIAL

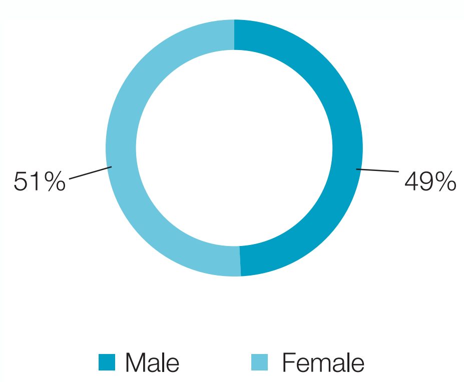
Employment and Labour Practices

As a socially responsible enterprise, the Group shall be held accountable to not only its customers but its employees as well. Aside from pursuing economic goals, the Group also assumes responsibility to the society, which is in turn essential to its sustainable development. The Group values its employees and strives to create a favourable working environment for them.

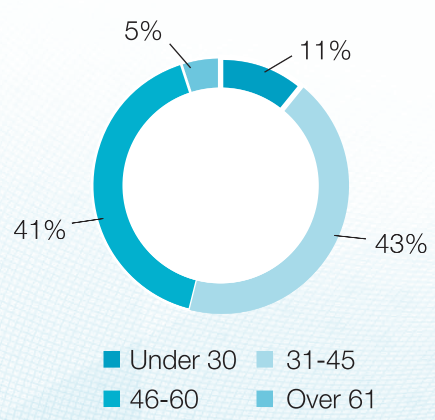
The Group has employees in the PRC as well as in Hong Kong. The Group launches annual leave policies and welfare and benefit packages with reference to local labour legislations. The Group's employees in the PRC enjoy the social insurance funds (including funds for basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance) and the housing provident fund pursuant to applicable PRC laws and regulations. As for the employees in Hong Kong, their rights are safeguarded by the Group's compliance with the relevant employment laws and regulations, including the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), the Minimum Wage Ordinance (Chapter 603 of the Laws of Hong Kong) and the Employment Ordinance (Chapter 57 of the Laws of Hong Kong).

As at 31 December 2017, the Group had a total of 178 full-time employees. The breakdown of the total number of employees is set out below by gender, age group, employment type, and geographical region, respectively:

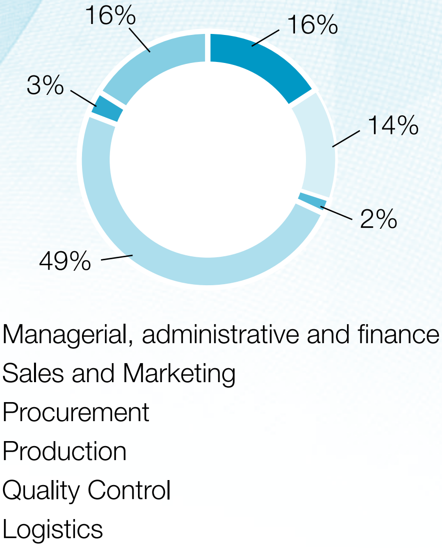
Total number of employees by gender



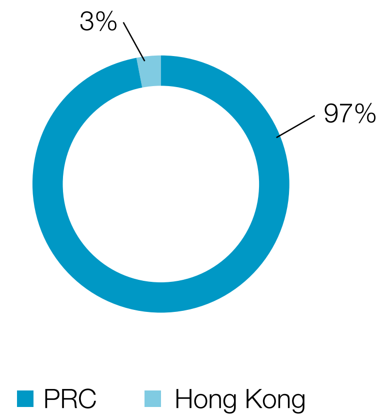
Total number of employees by age group



Total number of employees by employment type



Total number of employees by geographical region



For the year ended 31 December 2017, to the best knowledge of the Board, there was no material violation of relevant standards, rules and regulations regarding remuneration packages and benefits.

The Group places great value on its employees and aims to adopt an open, fair and reasonable human resources policy. Hence, the Group ensures that all candidates are treated equally irrespective of race, gender, age, religion and physical condition during recruitment and promotion processes. In order to ensure a sustainable business growth, the Group adopts a staff recruitment and retention policy to recruit or retain experienced and skilled labour and non-manual staff. Pursuant to this policy, management and office staff of the Company receive remuneration packages comprising basic salaries, discretionary bonuses and allowances while workers at the Guangzhou Production Facilities receive salaries above the minimum wage, promotional opportunities and budgets for social events such as birthday celebrations. In addition, the Group strives to maintain good and harmonious relationships with its employees.

Save as otherwise disclosed in the section headed "Management Discussion and Analysis" of this annual report, the Group had complied in all material respects with the relevant laws and regulations in the PRC and Hong Kong in relation to employees' rights and benefits, including the Employment Ordinance, Mandatory Provident Fund Schemes Ordinance, Employees' Compensation Ordinance and Minimum Wage Ordinance during the year ended 31 December 2017.

Health and Safety

The Group places emphasis on occupational health and safety. To establish a safe and healthy working environment, the Group has in place safety guidelines and operating manuals setting out safety measures for the production process. In addition, training on work safety, including guidelines for safety management, emergency handling procedures and proper operation of machinery and equipment, is offered to the employees so as to raise their awareness of the importance of safety procedures and policies. The Group also has appropriate measures in place to ensure that employees respond to emergencies appropriately. Following any incident, employees are required to investigate the cause of the incident in order to prevent a similar issue from occurring again. Any findings from such an investigation are seriously considered when the Group reviews the relevant internal control procedures and risk management policies.

The Group also organises and arranges an annual company dinner as well as parties to celebrate Christmas, New Year and other special occasions in order to foster employees' sense of belonging and to reward them for their contributions to the Group.

For the year ended 31 December 2017, the Group had complied with the relevant regulatory requirements on workplace safety in the PRC and Hong Kong, including the Occupational Safety and Health Ordinance. The Group did not have any safety accidents that led to death or major injuries. The condition of production was stable and safe and the percentage ratio of working days lost by the Group due to work-related injuries was nil during the year.

Development and Training

The Group recognises the importance of occupational development of employees. For its new workers at the Guangzhou Production Facilities, the Group mainly provides on-the-job training, which is led by foremen. In addition, the Group provides its new employees with training covering various areas of operations. Experienced staff of the Group assist the new employees in adapting to the business operations and culture. As for the office staff, the Group encourages them to attend seminars or external training courses so that their relevant knowledge and skills can be enhanced.

Labour Standards

The Group understands the importance of adhering to labour laws and strictly adheres to laws and regulations in relation to the minimum working age. As such, the Group has established mechanisms to prevent and prohibit child labour and forced labour. Such policies include (i) undergoing a thorough screening of a candidate's background and documentation prior to employment; (ii) reviewing recruitment methods to ensure that no deceptive methods are utilised to attract employees; and (iii) examining operational policies to ensure that no punishment regime is established to force employees to work.

Further, the conduct of employees is under strict supervision to avoid non-compliance. The Group prohibits employees from engaging in any illegal behaviour. In the event that illegal behaviour is discovered, the Group will investigate the relevant employee, report the illegal behaviour to the relevant authority and if necessary, dismiss that employee.

During the year ended 31 December 2017, the Group had complied with all relevant laws and regulations surrounding child labour and forced labour and there were no incidents involving discrimination on the basis of race, religion, age or disability.

Supply Chain Management

The major raw materials used in the Group's manufacturing process primarily consist of fibre, yarn, dyeing materials and packing materials. All the Group's raw materials were sourced from the PRC. The Group does not maintain dyeing and yarn manufacturing facilities at its Guangzhou Production Facilities. As such, processes such as dyeing and yarn manufacturing are subcontracted to third party dyeing suppliers and yarn manufacturers.

The Group implements a stringent quality control policy. To manage the quality of its supply chain, the Group maintains an approved list of suppliers which is reviewed and updated regularly. In selecting its suppliers, the Group considers a variety of factors such as the suppliers' production capacity, background information and corporate documents and where necessary, the Group may place trial orders to assess the quality of the products or services these suppliers provide. Further, the Group does not enter into long-term contracts with its suppliers. To reduce the risk of supply shortage of its raw materials and processing services, the Group ensures that it has more than one supplier for each product or processing service.

Product Responsibility

As a sewing threads manufacturer whose products are sold to garment manufacturers and wholesalers, the Group is committed to strict quality control to ensure that the quality of its products satisfies its customers' needs and complies with applicable health and safety regulations. The Group enforces stringent quality control measures in various aspects of its business and has been accredited with the certification of "ISO 9001: 2008. Quality Management System" by DNV GL for the manufacturing of sewing threads.

Raw materials used in the production of sewing threads include fibre, yarn, dyeing materials and packing materials which are inspected upon delivery on a sampling basis. Should any sub-standard or defective raw materials be discovered by the Group's quality control staff, the suppliers of the sub-standard or defective raw materials will be contacted for an arrangement for return or replacement.

To make sure that the Group's products conform to the dyeing requirements and standards of its customers, the Group arranges for its dyeing suppliers undergo on-site inspections by quality control personnel, who check to ensure that (i) the industry environmental standard OEKO-TEX® STANDARD 100; and (ii) appropriate dyeing processes are being upheld and maintained. Before a batch of sewing threads are dyed, the Group conducts an inspection on a dyed sewing thread sample. Should any problem arise from the inspection, the Group will request that the threads be dyed again. In the case where sewing threads are dyed and delivered back to the Group, the quality control staff conduct colour matching and fastness tests, and any sub-standard items will be returned to the dyeing suppliers.

Finished products are produced upon the completion of the winding and waxing process that is undertaken at the Guangzhou Production Facilities. Before packaging and delivery of the finished products, the Group's quality control staff conduct a final inspection of the finished products on a sampling basis. Checks are conducted to test the weight, length, strength, elongation, colour fastness and knots of the final products, and a final visual inspection is conducted before packaging. Products that fail to meet the quality standards of the Group are not packaged and are instead subject to failure analysis. If a customer complaint is received, the Group promptly investigates the validity of the complaint and provides a suitable solution. A product which is the subject of any customer complaint is reviewed to ensure that the product defect is identified and addressed to prevent future products from having similar defects.

During the year ended 31 December 2017, the Group acted in compliance with the relevant laws and regulations relating to health and safety, advertising, labelling and privacy matters applicable to its operations.

Anti-Corruption

The Group acknowledges the necessity to maintain a high level of ethical corporate culture and considers it necessary to uphold a high standard of integrity in order to comply with relevant laws and regulations regarding bribery, extortion, fraud and money laundering. As such, the Group has established an anti-fraud policy which (i) provides a clear outline as to the actions and behaviour that may constitute bribery or fraud; and (ii) establishes procedures that aim to prevent, minimise, detect and report any fraudulent activity within the business. Pursuant to the policy, potential employees undergo background checks while new employees are required to be informed of the Company's policy of integrity as well as any rules and regulations relating to fraud.

Further, the Group has established guidelines to govern the use of the company seal and other stamps. According to these guidelines, the use of the company seal and other stamps used for signing on behalf of the Company is subject to approval by a general manager of the Group. The Company seal and other stamps must be returned to the departments that are authorised to store them. The Group will review the implementation of its anti-fraud policy and the relevant guidelines periodically and improve the existing mechanisms when appropriate.

During the year ended 31 December 2017, the Group had complied with the relevant laws and regulations relating to bribery, extortion, fraud and money laundering and had not been charged with any offences relating to the same.

Community Investment

The Group is well aware that contribution to the community is vital and hence aims to contribute by promoting environmental protection in the area in which it operates. While the Group's current production process does not generate a significant discharge of pollutants, the Group promotes recycling by passing the plastic cones used for dyeing sewing threads to external recycling companies for recycling.

In the foreseeable future, the Group will strive to (i) seek out opportunities to collaborate with charitable non-profit organisations; (ii) make charitable donations to organisations that contribute to society; (iii) promote sports and fitness activities among its employees; and (iv) engage in more environmental protection and awareness campaigns.

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To the shareholders of Shen You Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Shen You Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 40 to 93, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of trade receivables	
As at 31 December 2017, the Group had trade receivables of HK$24,900,000, after making a provision of HK$112,000. The determination as to whether a trade receivable is collectable involves management's estimation. Specific factors management considers include the age of the balance, credit histories, recent and historical payment patterns and any other available information concerning the creditworthiness of customers. Management uses this information to determine whether a provision for impairment is required either for a specific transaction or for a customer's balance overall. We focused on this area because it requires a high level of management estimation and due to the materiality of the amounts involved. The significant accounting estimates and disclosures about the provision for impairment of trade receivables are included in notes 3 and 16 to the consolidated financial statements.	We assessed the Group's internal controls over the credit control of trade receivables. We also reviewed management's assessment regarding the recoverability of the Group's aged and overdue receivables by evaluating the assumptions and methodologies used by management and obtaining evidence to support management's assessment including background search, analysis of financial information of debtors (if available) and credit history checking.
Deferred tax assets	
As at 31 December 2017, the Group has recorded deferred tax assets of HK$1,338,000, which are resulted from tax losses and deductible temporary differences mainly arising from the accrued salary and welfare expense and deferred rental expenses. The Company recognises these deferred tax assets to the extent that it is probable that future taxable profits will allow the deferred tax assets to be recovered. The probability of recovery is impacted by uncertainties regarding the likely timing and level of future taxable profits, together with tax planning strategies. Significant management judgements and estimates are involved in the process. The significant judgements and estimates and related disclosures on deferred tax assets are included in notes 3 and 25 to the consolidated financial statements.	Our audit procedures included evaluating assumptions and methodologies used by the Company to determine the recoverable amount per tax jurisdiction. We have reviewed the profit forecast prepared by management by checking to the arithmetical accuracy of the calculations and assessing the significant assumptions and judgements by comparing the input data of forecasted growth rates, gross profit margin and material expense items with the business development plan approved by the board of directors of the Company and historical financial performance of the Group.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Hui Kin Fai Stephen.

Ernst & Young
Certified Public Accountants
Hong Kong

28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
REVENUE	5	**74,371**	72,624
Cost of sales		**(48,853)**	(45,617)
Gross profit		**25,518**	27,007
Other income and gains	5	**642**	1,515
Selling and distribution expenses		**(6,408)**	(6,952)
Administrative expenses		**(9,831)**	(7,752)
Other expenses		**(20,108)**	(10,303)
Finance costs	7	**(2,291)**	(2,892)
(LOSS)/PROFIT BEFORE TAX	6	**(12,478)**	623
Income tax expense	10	**(712)**	(1,100)
LOSS FOR THE YEAR		**(13,190)**	(477)
ATTRIBUTABLE TO OWNERS OF THE PARENT		**(13,190)**	(477)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (expressed in HK cents per share)	12	**(2.16)**	(0.08)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2017

	Note	**2017 HK$'000**	2016 HK$'000
LOSS FOR THE YEAR		**(13,190)**	(477)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investment:			
Change in fair value		**169**	(1,157)
Income tax effect	*25*	**(28)**	191
		141	(966)
Exchange differences on translation of foreign operations		**4,997**	(4,583)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**5,138**	(5,549)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(8,052)**	(6,026)
ATTRIBUTABLE TO OWNERS OF THE PARENT		**(8,052)**	(6,026)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**6,902**	6,171
Available-for-sale investment	14	**4,474**	4,305
Prepayments, deposits and other receivables	17	**2,165**	1,226
Deferred tax assets	25	**1,338**	1,553
Total non-current assets		**14,879**	13,255
CURRENT ASSETS			
Inventories	15	**9,995**	9,751
Trade receivables	16	**24,900**	13,888
Prepayments, deposits and other receivables	17	**12,665**	5,059
Due from a related company	33(c)	**–**	63,087
Pledged deposits	18	**9,000**	9,000
Cash and cash equivalents	18	**57,920**	799
		114,480	101,584
Assets classified as held for sale	19	**–**	3,495
Total current assets		**114,480**	105,079
CURRENT LIABILITIES			
Trade payables	20	**9,269**	8,538
Other payables and accruals	21	**15,709**	8,188
Interest-bearing bank borrowings	22	**22,627**	36,930
Tax payable		**1,943**	1,582
Government grants	23	**–**	–
Derivative financial instrument	24	**–**	–
Total current liabilities		**49,548**	55,238
NET CURRENT ASSETS		**64,932**	49,841
TOTAL ASSETS LESS CURRENT LIABILITIES		**79,811**	63,096
NON-CURRENT LIABILITIES			
Deferred tax liabilities	25	**215**	135
Other payables and accruals	21	**1,512**	1,576
Total non-current liabilities		**1,727**	1,711
Net assets		**78,084**	61,385
EQUITY			
Share capital	26	**8,000**	–
Reserves	27	**70,084**	61,385
Total equity		**78,084**	61,385

The consolidated financial statements on pages 40 to 93 were approved and authorised for issue by the Board on 28 March 2018 and are signed on its behalf by:

Wong Kwok Wai, Albert
Director

Lee Wing Hong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2017

	Share capital HK$'000 *(note 26)*	Share premium HK$'000 *(note 26)*	Merger reserve HK$'000 *(note 27)*	Statutory surplus reserve HK$'000 *(note 27)*	Available-for-sale investment revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total equity HK$'000
At 1 January 2016	–	–	40,000	5,374	–	10,876	11,161	67,411
Loss for the year	–	–	–	–	–	–	(477)	(477)
Other comprehensive loss for the year:								
Change in fair value of an available-for-sale investment, net of tax	–	–	–	–	(966)	–	–	(966)
Exchange differences on translation of foreign operations	–	–	–	–	–	(4,583)	–	(4,583)
Total comprehensive loss for the year	–	–	–	–	(966)	(4,583)	(477)	(6,026)
Transfer from retained profits	–	–	–	296	–	–	(296)	–
At 31 December 2016 and 1 January 2017	–	–	40,000*	5,670*	(966)*	6,293*	10,388*	61,385
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(13,190)**	**(13,190)**
Other comprehensive income for the year:								
Change in fair value of an available-for-sale investment, net of tax	**–**	**–**	**–**	**–**	**141**	**–**	**–**	**141**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**4,997**	**–**	**4,997**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**141**	**4,997**	**(13,190)**	**(8,052)**
Issue of shares	**2,000**	**73,000**	**–**	**–**	**–**	**–**	**–**	**75,000**
Share issue expenses	**–**	**(9,249)**	**–**	**–**	**–**	**–**	**–**	**(9,249)**
Capitalisation issue	**6,000**	**(6,000)**	**–**	**–**	**–**	**–**	**–**	**–**
Acquisition of equity interests in subsidiaries	**–**	**–**	**(41,000)**	**–**	**–**	**–**	**–**	**(41,000)**
At 31 December 2017	**8,000**	**57,751***	**(1,000)***	**5,670***	**(825)***	**11,290***	**(2,802)***	**78,084**

* These reserve accounts comprise the consolidated reserves of HK$70,084,000 (2016: HK$61,385,000) in the consolidated statements of financial position as at 31 December 2017.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(12,478)**	623
Adjustments for:			
Finance costs	*7*	**2,291**	2,892
Bank interest income	*5*	**–**	(5)
Fair value gain, net:			
Derivative instrument – transactions not qualifying as hedges	*6*	**–**	(249)
Recognition of government grants	*5*	**–**	(191)
Depreciation	*13*	**307**	1,064
Recognition of prepaid lease payments for buildings	*17*	**330**	286
(Gain)/loss on disposal of items of property, plant and equipment	*6*	**(20)**	1,893
Gain on disposal of a subsidiary	*5*	**–**	(217)
Impairment of trade receivables	*16*	**130**	–
		(9,440)	6,096
Decrease/(increase) in inventories		**516**	(903)
(Increase)/decrease in trade receivables		**(10,207)**	613
Increase in prepayments, deposits, other receivables		**(3,077)**	(832)
Increase in trade payables		**39**	2,229
Increase/(decrease) in other payables and accruals		**6,874**	(1,676)
Cash (used in)/generated from operations		**(15,295)**	5,527
Interest received		**–**	5
PRC taxes paid		**(74)**	(1,798)
Net cash flows (used in)/from operating activities		**(15,369)**	3,734
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(1,253)**	(1,995)
Addition to prepaid lease payment for buildings		**(679)**	–
Proceeds from disposal of items of property, plant and equipment		**77**	107
Purchase of the available-for-sale investment		**–**	(5,462)
Advance to a related company		**(36,608)**	(64,062)
Repayments from a related company		**61,740**	95,249
Disposal of a subsidiary	*34*	**–**	566
Increase in pledged deposits		**–**	(9,000)
Settlements of derivative instruments	*24*	**–**	(894)
Decrease in pledged deposits		**–**	5,003
Net cash flows from investing activities		**23,277**	19,512

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
Net cash flows from operating and investing activities		**7,908**	23,246
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**75,000**	–
Share issue expenses		**(9,249)**	–
New bank loans		**62,054**	61,421
Repayments of bank loans		**(71,379)**	(81,628)
Interest paid		**(2,291)**	(2,892)
Net cash flows from/(used in) financing activities		**54,135**	(23,099)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**62,043**	147
Cash and cash equivalents at beginning of year		**(4,218)**	(4,309)
Effect of foreign exchange rate changes, net		**95**	(56)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**57,920**	(4,218)
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*18*	**57,920**	799
Cash and cash equivalents as stated in the consolidated statement of financial position		**57,920**	799
Bank overdrafts	*22*	**–**	(5,017)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**57,920**	(4,218)

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (as revised) of the Cayman Islands on 18 August 2016. The registered office address of the Company is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands. The shares of the Company were listed (the "Listing") on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 December 2017 (the "Listing Date").

In preparation for the listing of the shares of the Company on the Stock Exchange, the Group underwent a corporate reorganisation (the "Reorganisation"), pursuant to which the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 30 November 2017.

The Company is an investment holding company. During the year, the Company's subsidiaries were principally engaged in the manufacture and trading of high performance sewing threads and broad categories of garment accessories.

In the opinion of the directors, the ultimate holding company of the Group is Three Gates Investment Limited (the "Ultimate Holding Company"), which was incorporated in the British Virgin Islands ("BVI") with limited liability and is controlled by Mr. Wong Kwok Wai, Albert ("Mr. Wong").

As at the date of this report, the Company has direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ paid-up/registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Strat Tech Holdings Limited *	BVI	US$1	100%	–	Investment holding
Tseyu International Trading Company Limited ** ("Tseyu")	Hong Kong	HK$5,000,000	–	100%	Trading of sewing threads and broad categories of garment accessories
Newchamp Industries Limited ** ("Newchamp")	Hong Kong	HK$30,000,000	–	100%	Trading of sewing threads
Cheerful Keen Limited *	BVI	US$1	–	100%	Trading of sewing threads and broad categories of garment accessories
Guangzhou Xinhua Thread Company Limited*** ("Guangzhou Xinhua")	People's Republic of China (the "PRC")/ Mainland China	HK$52,250,000	–	100%	Manufacture and trading of sewing threads and broad categories of garment accessories

* No audited financial statements have been prepared for the companies since the dates of their respective incorporation as these companies are either not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation or have not been involved in any significant business transactions.

** The statutory financial statements of these entities prepared under HKFRSs were audited by Ernst & Young, certified public accountants registered in Hong Kong.

*** Registered as a wholly-foreign-owned enterprise under PRC law.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investment and derivative financial instruments which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014–2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financial activities, including both changes arising from cash flow and non-cash changes. Disclosures of the changes in liabilities arising from financing activities is provided in note 35 to these financial statements.

Other than as explained above regarding the impact of amendments to HKAS 7, the adoption of the above revised standards has had no significant financial effect on these financial statements of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to the following two HKFRSs: — HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*[1] — HKAS 28 *Investments in Associates and Joint Ventures*[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Other than explained below regarding the impact of HKFRS 9, HKFRS 15 and HKFRS 16, the Group expects that the adoption of the above new and revised standards will have no significant impact on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

All recognised financial assets that are within the scope of HKAS 39 are subsequently measured at amortised cost or fair value under HKFRS 9. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have 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, are measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods and their fair value changes are recognised in profit or loss. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss. All of the above represent new requirements for classification and measurement for financial assets under HKFRS 9 that will change the way the Group classifies and measures its financial assets under "financial assets at fair value through profit or loss", "loans and receivables" and "available-for-sale financial assets" under the existing HKAS 39.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of HKFRS 9.

The Group is analysing its business models, contract terms and changes to its existing credit exposures to assess the potential impact on its financial statements resulting from the adoption of HKFRS 9. Given the nature of the Group's operation, it is expected that (1) the classification of the Group's available-for-sale investments under the existing HKAS 39 would be changed to "financial assets at fair value through profit or loss"; (2) the cumulative unrealised gain or loss arising from the changes in fair value of the Group's available-for-sale financial assets before adoption of HKFRS 9 of HK$825,000 would be reclassified from "available-for-sale investment revaluation reserve" to "retained profits"; (3) the unrealised gain or loss arising from the changes in fair value of the Group's financial assets at fair value through profit or loss since adoption of HKFRS 9 would be recognised in profit or loss; and (4) the impact regarding the impairments of the Group's financial instruments from these changes would not be material.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The Group has assessed that the adoption of HKFRS 15 will not have a significant impact on the Group's consolidated financial statements.

HKFRS 16, issued in May 2016, replaces HKAS 17 Leases, 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.* The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 31(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$9,299,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

The Group measures its available-for-sale investment and derivative financial instrument at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Production machinery	10% to 20%
Office equipment	20% to 30%
Leasehold improvements	20%
Vehicles	20% to 30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plants and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating lease are credited to the statement of profit or loss on the straight line basis over the lease term. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms. Prepaid lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the consolidated statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in life insurance policies.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income or other expenses, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or other losses. Interest earned whilst holding the available-for-sale financial investments is reported as interest income and is recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost *(Continued)*

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or loans and borrowings, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, a derivative financial instrument, financial liabilities included in other payables and accruals and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses a derivative financial instrument to hedge its foreign currency risk. The derivative financial instrument is initially recognised at fair value on the date on which a derivative contract is entered into and is subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The derivative instrument entered into by the Group does not qualify for hedge accounting, and changes in the fair value of this derivative instrument is recognised in the statement of profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows). Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries/jurisdictions in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) Rental income, on a time proportion basis over the lease terms; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in HK$, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than HK$. As at the end of the reporting period, the assets and liabilities of these entities are translated into HK$ at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into HK$ at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into HK$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into HK$ at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Judgements *(Continued)*

Classification of a life insurance policy

On 25 January 2016, the Group entered into a life insurance policy with an insurance company to insure an executive director. Under the policy, the Group is the beneficiary and the policy holder. As the policy is of no fixed maturity and payment, and the Group neither acquired the policy for the purpose of selling it in the near term nor designated it as a financial asset at fair value through profit or loss, the Group classified the life insurance policy as an available-for-sale investment, with the premium paid as initial fair value and the surrender value as the estimated fair value as at the end of each reporting period.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit by applying key assumptions such as growth rate and gross profit margin and choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2017, the Group had property, plant and equipment amounting to HK$6,902,000 (2016: HK$6,171,000).

Deferred tax assets

Deferred tax assets are recognised for certain deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 25 to the financial statements.

Impairment of trade and other receivables

The policy for provision for impairment losses of the Group is based on the evaluation of collectability, the aged analysis of trade and other receivables and management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the age of the balance, credit histories, recent and historical payment patterns and any other available information concerning the creditworthiness of customers. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Further details are contained in notes 16 and 17 to the financial statements.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the provision requires management's judgement and estimates on market conditions based on latest selling price and recent orders received. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of inventories and the write-down charge/write-back of inventories in the period in which such estimate has been changed. No impairment provision has been recognised for inventories as at the end of each reporting period. Further details are contained in note 15 to the financial statements.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and trading of high performance sewing threads and broad categories of garment accessories. For management purposes, the Group operates in one business unit and has one reportable operating segment, which is the thread segment that manufactures and sells sewing threads and garment accessories. Accordingly, no further operating segment information is presented.

Geographical information

(a) Revenue from external customers

	2017 HK$'000	2016 HK$'000
Mainland China	**36,995**	38,733
Overseas	**27,759**	27,927
Hong Kong	**9,617**	5,964
	74,371	72,624

The revenue information is based on the locations of the customers.

(b) Non-current assets

	2017 HK$'000	2016 HK$'000
Mainland China	**8,671**	7,207
Hong Kong	**396**	190
	9,067	7,397

The non-current asset information is based on the locations of the assets and excludes deferred tax assets and an available-for-sale investment.

Information about a major customer

Revenue of approximately HK$20,932,000 (2016: HK$20,556,000) was derived from sales to a single customer, including sales to a group of entities which are known to be under common control with that customer.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after trade discounts and sales taxes.

An analysis of revenue, other income and gains is as follows:

	Notes	**2017 HK$'000**	2016 HK$'000
Revenue			
Sales of goods		**74,371**	72,624
Other income and gains			
Fair value gains, net:			
Derivative instrument — transactions not qualifying as hedges	*24*	**–**	249
Exchange gains, net		**–**	853
Gain on disposal of a subsidiary	*34*	**–**	217
Government grants*	*23*	**–**	191
Bank interest income		**–**	5
Gain on disposal of items of property, plant and equipment*		**20**	–
Gross rental income		**622**	–
		642	1,515

* Government grants have been received from the PRC government authorities in recognition of the Group's efforts for water processing construction in Guangzhou, the PRC. There were no unfulfilled conditions or contingencies in relation to the grants. They are released to other income and gains over the expected useful lives of the relevant assets. Upon the disposal of the relevant assets, the unrecognised government grants were fully released to other income and gains in 2016.

6. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

	Notes	**2017 HK$'000**	2016 HK$'000
Cost of inventories sold		**48,853**	45,617
Depreciation	*13*	**307**	1,064
Recognition of prepaid lease payments for buildings	*17*	**330**	286
Minimum lease payments under operating leases:			
Land and buildings and office equipment		**1,872**	1,705
Contingent rent for production machinery		**–**	459
		1,872	2,164
Auditor's remuneration		**1,280**	200
Employee benefit expense (excluding directors' and chief executive's remuneration as disclosed in note 8):			
Wages and salaries		**13,283**	14,594
Pension scheme contributions		**1,217**	2,161
Severance payments		**663*** **	1,858*
		15,163	18,613
Listing expenses*		**18,547**	6,552
Fair value gain, net:			
Derivative instrument — transactions not qualifying as hedges**	*24*	**–**	(249)
Foreign exchange loss/(gain), net**		**1,419**	(853)
(Gain)/loss on disposal of items of property, plant and equipment**		**(20)**	1,893
Gain on disposal of a subsidiary**	*5, 34*	**–**	(217)
Bank interest income	*5*	**–**	(5)
Impairment of trade receivables	*16*	**130**	–

* The listing expenses and severance payments are included in "Other expenses" in the consolidated statement of profit or loss.

** The losses and gains are included in "Other expenses" and "Other income and gains" in the consolidated statement of profit or loss, respectively.

*** The severance payments are included in "Administrative expenses" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 HK$'000	2016 HK$'000
Interest on bank loans and overdrafts	**2,291**	2,892

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017 HK$'000	2016 HK$'000
Fees	**34**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**1,008**	623
Pension scheme contributions	**16**	–
	1,024	623
	1,058	623

(a) Independent non-executive directors:

The fees paid to independent non-executive directors during the year were as follows:

	2017 HK$'000	2016 HK$'000
Mr. To King Yan, Adam	**8**	–
Dr. Yeung Ngai Man, John	**8**	–
Mr. Sung Alfred Lee Ming	**8**	–
	24	–

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

(b) Executive directors, a non-executive director and the chief executive:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2017				
Chief executive and executive director				
Mr. Wong	**–**	**946**	**62**	**1,008**
Executive director				
Mr. Lee Wing Hong	**–**	**15**	**1**	**16**
Non-executive director				
Mr. Ng Chan Lam	**10**	**–**	**–**	**10**
	10	**961**	**63**	**1,034**

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2016				
Chief executive and executive director				
Mr. Wong	–	623	–	623

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

One (2016: One) of the five highest paid individuals was a director for the year ended 31 December 2017, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2016: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017 HK$'000	2016 HK$'000
Salaries, allowances and benefits in kind	**1,552**	1,293
Pension scheme contributions	**150**	67
	1,702	1,360

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	2017 HK$'000	2016 HK$'000
Nil to HK$1,000,000	**4**	4

10. INCOME TAX

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

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the years ended 31 December 2017 and 2016.

Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiaries which operate in Mainland China are subject to corporate income tax at a rate of 25% on the taxable income. Preferential tax treatment is available to the Group's PRC subsidiary, 佛山市至華綫業有限公司 ("Zhihua"), which was disposed of in June 2016, since it was qualified as a small and low-profit enterprise and was subject to income tax at a preferential tax rate of 20%. Besides, pursuant to Caishui [2014] No.34 and Caishui [2015] No.34, Zhihua was entitled to a further deduction of 50% of the taxable income.

	2017 HK$'000	2016 HK$'000
Current — Hong Kong and Mainland China	**396**	663
Deferred *(note 25)*	**316**	437
	712	1,100

10. INCOME TAX *(Continued)*

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

Year ended 31 December 2017

	Hong Kong		Mainland China		Elsewhere		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(8,350)		735		(4,863)		(12,478)	
Tax at the statutory tax rate	(1,378)	16.5	184	25.0	–	–	(1,194)	9.6
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	80	(1.0)	–	–	–	–	80	(0.6)
Expenses not deductible for tax	1,791	(21.4)	55	7.5	–	–	1,846	(14.8)
Tax deduction	(20)	0.2	–	–	–	–	(20)	0.2
Tax charge at the Group's effective rate	473	(5.7)	239	32.5	–	–	712	(5.6)

Year ended 31 December 2016

	Hong Kong		Mainland China		Elsewhere		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(1,325)		1,953		(5)		623	
Tax at the statutory tax rate	(218)	16.5	488	25.0	–	–	270	43.3
Different tax rates for specific entities in the PRC	–	–	11	0.6	–	–	11	1.8
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	48	(3.6)	–	–	–	–	48	7.7
Expenses not deductible for tax	851	(64.2)	4	0.2	–	–	855	137.2
Income not subject to tax	–	–	(84)	(4.3)	–	–	(84)	(13.5)
Tax charge at the Group's effective rate	681	(51.4)	419	21.5	–	–	1,100	176.5

11. DIVIDENDS

No dividend was proposed by the Group for the years ended 31 December 2017 and 2016.

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

	2017 HK cents	2016 HK cents
Loss per share attributable to ordinary equity holders of the parent — Basic and diluted	**2.16**	0.08

The calculation of the basic and diluted loss per share is based on the loss for the year attributable to ordinary equity holders of the parent and the weighted average number of shares in issue during the year.

The calculation of basic and diluted loss per share is based on:

	2017 HK$'000	2016 HK$'000
Loss attributable to ordinary equity holders of the parent, used in the basic and diluted loss per share calculation	**13,190**	477

	2017	2016
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculation	**609,315,068**	600,000,000

The calculation of the weighted average number of ordinary shares is as follows:

	Note	2017	2016
Issue of share on 18 August 2016 (date of incorporation)		**1**	1
Effect of capitalisation issue	*26*	**599,999,999**	599,999,999
Effect of initial public offering on the Listing Date	*26*	**9,315,068**	–
Weighted average number of ordinary shares		**609,315,068**	600,000,000

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2017 and 2016 in respect of a dilution as the Group had no potential dilutive ordinary shares in issue during those years.

13. PROPERTY, PLANT AND EQUIPMENT

	Production machinery HK$'000	Office equipment HK$'000	Leasehold improvements HK$'000	Vehicles HK$'000	Total HK$'000
31 December 2017					
At 31 December 2016 and at 1 January 2017:					
Cost	49,825	2,260	678	2,742	55,505
Accumulated depreciation	(44,461)	(2,046)	(518)	(2,309)	(49,334)
Net carrying amount	5,364	214	160	433	6,171
At 1 January 2017, net of accumulated depreciation	5,364	214	160	433	6,171
Additions	–	29	26	617	672
Disposal	–	–	–	(57)	(57)
Depreciation provided during the year	(171)	(33)	(42)	(61)	(307)
Exchange realignment	370	12	–	41	423
At 31 December 2017, net of accumulated depreciation	5,563	222	144	973	6,902
At 31 December 2017:					
Cost	53,318	1,796	185	2,978	58,277
Accumulated depreciation	(47,755)	(1,574)	(41)	(2,005)	(51,375)
Net carrying amount	5,563	222	144	973	6,902

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Production machinery HK$'000	Office equipment HK$'000	Leasehold improvements HK$'000	Vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2016						
At 31 December 2015 and at 1 January 2016:						
Cost	76,453	2,515	520	2,748	4,343	86,579
Accumulated depreciation	(66,806)	(2,221)	(425)	(2,380)	–	(71,832)
Net carrying amount	9,647	294	95	368	4,343	14,747
At 1 January 2016, net of accumulated depreciation	9,647	294	95	368	4,343	14,747
Additions	44	30	159	175	1,646	2,054
Disposal	(1,890)	(18)	–	–	(594)	(2,502)
Disposal of a subsidiary	–	–	–	–	(2,836)	(2,836)
Depreciation provided during the year	(809)	(78)	(94)	(83)	–	(1,064)
Transfer to assets held for sale	(1,184)	–	–	–	(2,469)	(3,653)
Exchange realignment	(444)	(14)	–	(27)	(90)	(575)
At 31 December 2016, net of accumulated depreciation	5,364	214	160	433	–	6,171
At 31 December 2016:						
Cost	49,825	2,260	678	2,742	–	55,505
Accumulated depreciation	(44,461)	(2,046)	(518)	(2,309)	–	(49,334)
Net carrying amount	5,364	214	160	433	–	6,171

Certain items of the Group's machinery with a net carrying amount of approximately HK$4,212,000 as at 31 December 2016 were pledged to secure general banking facilities granted to the Group (note 22).

14. AVAILABLE-FOR-SALE INVESTMENT

	2017 HK$'000	2016 HK$'000
Life insurance policy, at fair value	**4,474**	4,305

On 25 January 2016, the Group entered into a life insurance policy with an insurance company to insure an executive director. Under the policy, the Group is the beneficiary and the policy holder. The Group paid upfront premiums for the policy and may surrender the policy any time by making a written request and receive cash based on the surrender value of the policy at the date of withdrawal, which is calculated by the insurer. In the opinion of the directors, the surrender value of the policy provided by the insurance company is the best approximation of its fair value, which is categorised within Level 3 of the fair value hierarchy.

The gross changes in fair value of the Group's available-for-sale investment amounted to HK$169,000 (2016: HK$1,157,000) recognised in other comprehensive income for the year ended 31 December 2017. In the opinion of the directors, no provision for impairment is necessary in respect of the Group's available-for-sale investment considering the fact that the decrease in the fair value of the Group's available-for-sale investment was derived from the surrender compensations which would decline gradually year by year and be fully exempted in 2035.

As at 31 December 2017 and 2016, the Group's available-for-sale investment was pledged as security for bank facilities granted to the Group. Further details are contained in note 22 to the financial statements.

In the opinion of the directors, the Group's available-for-sale investment would not be surrendered within the next 12 months and was therefore classified as a non-current asset.

15. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	**4,586**	4,028
Work in progress	**1,563**	2,211
Finished goods	**3,846**	3,512
	9,995	9,751

16. TRADE RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**25,012**	13,888
Impairment	**(112)**	–
	24,900	13,888

Trade receivables represented the outstanding contracted value for the sale of goods receivable from the customers at each reporting date.

16. TRADE RECEIVABLES *(Continued)*

The Group's trading terms with its customers are mainly on credit. The credit period is generally from one to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by senior management. The Group had significant concentrations of credit risk as 61% (2016: 51%) of the trade receivables were derived from five customers as at 31 December 2017. The trade receivables from such customers were within the credit period. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2017 HK$'000	2016 HK$'000
Within 1 month	**16,428**	8,908
1 to 2 months	**4,113**	3,119
2 to 3 months	**664**	1,304
Over 3 months	**3,695**	557
	24,900	13,888

The movements in provision for impairment of trade receivables are as follows:

	2017 HK$'000	2016 HK$'000
At beginning of year	**–**	–
Impairment loss recognised *(note 6)*	**130**	–
Amount written off as uncollectible	**(18)**	–
	112	–

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$112,000 (2016: Nil) with a carrying amount before provision of HK$112,000 (2016: Nil).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in principal payments and none of the receivables is expected to be recovered.

The ageing analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2017 HK$'000	2016 HK$'000
Neither past due nor impaired	**21,206**	13,331
Less than 1 month past due	**3,120**	535
1 to 3 months past due	**574**	22
	24,900	13,888

16. TRADE RECEIVABLES *(Continued)*

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Trade receivables amounting to HK$12,593,000 (2016: HK$6,405,000) as at 31 December 2017 were pledged as security for the Group's bank facilities (note 22).

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 **HK$'000**	2016 HK$'000
Prepaid lease payments for buildings *(note)*	**1,890**	1,428
Other prepayments	**2,302**	1,234
Deposits and other receivables	**10,638**	3,623
	14,830	6,285
Portion classified as non-current assets	**(2,165)**	(1,226)
Current portion included in prepayments, deposits and other receivables	**12,665**	5,059

Note: It represents prepaid lease payments for buildings held under operating leases for 15 to 20 years. It was recognised in profit or loss over the lease term and the portion to be recognised within 1 year is classified as a current asset.

	2017 **HK$'000**	2016 HK$'000
Carrying amount at 1 January	**1,428**	1,911
Addition to the prepaid lease payments for buildings	**679**	–
Recognised during the year	**(330)**	(286)
Exchange realignment	**113**	(197)
Carrying amount at 31 December	**1,890**	1,428
Portion classified as non-current assets	**(1,447)**	(1,134)
Current portion included in prepayments, deposits and other receivables	**443**	294

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

18. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Note	2017 HK$'000	2016 HK$'000
Cash and bank balances		**7,798**	799
Time deposits		**59,122**	9,000
		66,920	9,799
Less:			
Pledged time deposits:			
Pledged for bank loans and overdrafts	*22*	**(9,000)**	(9,000)
Cash and cash equivalents		**57,920**	799

The cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$2,089,000 (2016: HK$798,000) as at 31 December 2017. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

19. ASSETS CLASSIFIED AS HELD FOR SALE

In June 2016, Guangzhou Xinhua entered into a sales and purchase agreement with an independent third party to dispose of certain machines and equipment for a consideration of HK$3,740,000.

The disposal of the machines and equipment was completed in June 2017.

Certain items of the Group's assets classified as held for sale with a net carrying amount of approximately HK$3,298,000 as at 31 December 2016 were pledged to secure bank borrowings granted to the Group (note 22).

20. TRADE PAYABLES

An aged analysis of the trade payables as at the end of each reporting period, based on the transaction date, is as follows:

	2017 HK$'000	2016 HK$'000
Within 1 month	**2,620**	2,622
1 to 2 months	**1,200**	2,063
2 to 3 months	**1,045**	938
Over 3 months	**4,404**	2,915
	9,269	8,538

The trade payables are unsecured, non-interest-bearing and are normally settled in 30 to 90 days, extending to longer periods for those long standing suppliers.

21. OTHER PAYABLES AND ACCRUALS

	2017 HK$'000	2016 HK$'000
Other payables and accruals	**17,182**	9,764
Advance from customers	**39**	–
	17,221	9,764
Portion classified as non-current	**(1,512)**	(1,576)
Current portion included in other payables and accruals	**15,709**	8,188

The current portion of other payables and accruals are unsecured, interest-free and repayable on an average term of three months.

The non-current portion of other payables and accruals represents the differences between contractual minimum lease payments and accrued minimum lease payments on a straight-line basis for the Group's leasehold land over the lease term. The non-current portion of other payables and accruals is unsecured and interest-free and would be subsequently settled upon the gradual maturity of the lease agreement.

22. INTEREST-BEARING BANK BORROWINGS

	2017		
	Effective interest rate (%)	**Maturity**	**HK$'000**
Current			
Bank loans — secured	**3.8 to 6.0**	**On demand**	**22,627**

	2016		
	Effective interest rate (%)	Maturity	HK$'000
Current			
Bank loans — secured	2.5 to 6.5	On demand	31,913
Bank overdrafts — secured	5.3 to 6.0	On demand	5,017
			36,930

Analysed into:

	2017 HK$'000	2016 HK$'000
Bank loans and overdrafts repayable on demand	**22,627**	36,930

22. INTEREST-BEARING BANK BORROWINGS *(Continued)*

Interest-bearing bank borrowings are denominated in:

	2017 HK$'000	2016 HK$'000
HK$	**15,006**	26,567
RMB	**–**	1,230
United States Dollar ("US$")	**7,621**	9,133
	22,627	36,930

Notes:

(a) HK Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* issued by the HKICPA requires that a loan which includes a clause that gives the lender the unconditional right to call in the loan at any time ("repayment on demand clause") shall be classified in total by the borrower as current in the statement of financial position. Interest-bearing bank loans and overdrafts of the Group in the amount of HK$22,627,000 (2016: HK$36,930,000) include a repayment on demand clause under the relevant loan agreements, among which balances amounting to HK$2,753,000 (2016: HK$4,574,000) that are repayable after one year from 31 December 2017 have been classified as current liabilities. For the purpose of the above analysis, such loans are included within current secured bank loans and analysed into bank loans repayable on demand.

(b) The Group's bank facilities (including overdraft facilities) amounted to HK$29,637,000 (2016: HK$40,371,000), of which HK$22,627,000 (2016: HK$36,930,000) had been utilised as at 31 December 2017.

(c) The following assets were pledged as security for interest-bearing bank borrowings:

		Carrying amounts	
	Notes	2017 HK$'000	2016 HK$'000
Property, plant and equipment	*13*	**–**	4,212
Available-for-sale investment	*14*	**4,474**	4,305
Trade receivables	*16*	**12,593**	6,405
Pledged deposits	*18*	**9,000**	9,000
Assets classified as held for sale	*19*	**–**	3,298
		26,067	27,220

(d) As at 31 December 2016, certain of the Group's bank loans were guaranteed by Mr. Wong, a director of the Company, which was released on the Listing Date (note 33(e)).

(e) As at 31 December 2016, the Group's bank loans of HK$6,053,000 were secured by the Government of the Hong Kong Special Administrative Region under the Special Loan Guarantee Scheme.

23. GOVERNMENT GRANTS

	2016 HK$'000
At 1 January	196
Amounts released to profit or loss	(191)
Exchange realignment	(5)
At 31 December	–

24. DERIVATIVE FINANCIAL INSTRUMENT

	2016 HK$'000
At 1 January	1,143
Settlements during the year	(894)
Fair value gain released to profit or loss *(note 6)*	(249)
At 31 December	–

The Group had entered into a forward exchange rate contract to manage its exchange rate exposures and the contract ended in June 2016. The forward exchange rate contract was not designated for hedge purposes and was measured at fair value through profit or loss. A gain of HK$249,000 on the change in the fair value was recognised in profit or loss for the year ended 31 December 2016.

25. DEFERRED TAX

The movements in deferred tax assets during the year ended 31 December 2017 are as follows:

Deferred tax assets

2017

	Depreciation charge in excess of related depreciation allowance HK$'000	Accrued salary and welfare expense HK$'000	Tax loss available for offsetting against future taxable profits HK$'000	Deferred rental expense HK$'000	Available-for-sale investment revaluation HK$'000	Total HK$'000
At 1 January 2017	62	877	–	423	191	1,553
Deferred tax (charged)/ credited to profit or loss during the year *(note 10)*	1	(770)	562	(29)	–	(236)
Deferred tax charged to other comprehensive income during the year	–	–	–	–	(28)	(28)
Exchange differences	–	1	21	27	–	49
Gross deferred tax assets at 31 December 2017	63	108	583	421	163	1,338

2016

	Depreciation charge in excess of related depreciation allowance HK$'000	Accrued salary and welfare expense HK$'000	Tax loss available for offsetting against future taxable profits HK$'000	Deferred rental expense HK$'000	Government grants HK$'000	Available-for-sale investment revaluation HK$'000	Total HK$'000
At 1 January 2016	46	1,070	85	593	49	–	1,843
Deferred tax (charged)/ credited to profit or loss during the year *(note 10)*	16	(193)	(85)	(79)	(48)	–	(389)
Deferred tax credited to other comprehensive income during the year	–	–	–	–	–	191	191
Disposal of a subsidiary *(note 34)*	–	–	–	(58)	–	–	(58)
Exchange differences	–	–	–	(33)	(1)	–	(34)
Gross deferred tax assets at 31 December 2016	62	877	–	423	–	191	1,553

25. DEFERRED TAX *(Continued)*

Deferred tax liabilities — withholding tax

	2017 HK$'000	2016 HK$'000
At 1 January	**135**	87
Deferred tax charged to profit or loss during the year *(note 10)*	**80**	48
Gross deferred tax liabilities at the end of each year	**215**	135

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable tax rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

The Group has recognised deferred tax liabilities in respect of temporary differences relating to all the unremitted earnings of its subsidiaries established in the PRC as at the end of each reporting period.

26. SHARE CAPITAL

Shares

	2017 HK$'000	2016 HK$'000
Authorised:		
5,000,000,000 (2016: 38,000,000) ordinary shares of HK$0.01 each (2016: HK$0.01 each) *(note a)*	**50,000**	380
Issued and fully paid:		
800,000,000 (2016: 1) ordinary shares of HK$0.01 each (2016: HK$0.01 each)	**8,000**	–

26. SHARE CAPITAL *(Continued)*

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital HK$'000	Share premium account HK$'000	Total HK$'000
Issue of share at 18 August 2016 (date of incorporation) *(note a)*	1	–	–	–
At 31 December 2016 and 1 January 2017	1	–	–	–
Capitalisation issue *(note b)*	599,999,999	6,000	(6,000)	–
Initial public offering *(note c)*	200,000,000	2,000	73,000	75,000
Share issue expenses	–	–	(9,249)	(9,249)
At 31 December 2017	800,000,000	8,000	57,751	65,751

(a) On 18 August 2016, the Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (as revised) of the Cayman Islands with authorised share capital of HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each. On the same date, one share was allotted and issued at par paid to the initial subscriber, which was then transferred to Three Gates Investment Limited.

Pursuant to a written resolution of the shareholders of the Company passed on 24 November 2017, the Company's authorised share capital was increased from HK$380,000 divided into 38,000,000 shares of HK$0.01 each to HK$50,000,000 divided into 5,000,000,000 shares of HK$0.01 each by the creation of additional 4,962,000,000 shares of HK$0.01 each.

(b) Pursuant to a written resolution of the shareholders of the Company passed on 24 November 2017, a total of 599,999,999 shares of HK$0.01 each were allotted and issued at par value to the shareholders as of the date immediately before the Listing Date on a pro rata basis by way of capitalisation of HK$6,000,000 from the Company's share premium account on the Listing Date.

(c) On the Listing Date, 200,000,000 new shares of HK$0.01 each were issued at a price of HK$0.375 per share in connection with the Company's initial public offering on the Stock Exchange. The proceeds of HK$2,000,000 representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$73,000,000 (before deduction of share issue expenses) were credited to the share premium account.

27. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statement of changes in equity.

Statutory surplus reserve

Pursuant to the relevant laws and regulations in the PRC, the companies registered in the PRC shall appropriate a certain percentage of their net profit after tax (after offsetting any prior years' losses) calculated under the accounting principles generally applicable to the PRC enterprises to the reserve fund. When the balance of this reserve fund reaches 50% of the entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after these usages. After making the appropriation to the statutory surplus reserve, the companies may also appropriate their profit for the year to the discretionary surplus reserve upon approval by the board of directors or the shareholders in a general meeting.

Merger reserve

The merger reserve represented the difference between the Company's shares of the nominal value of the paid-up capital of the subsidiaries acquired and the Company's cost of acquisition of the subsidiaries under common control upon the reorganisation undergone by the Group.

28. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group and the Company's shareholders in the Company's subsidiaries. The Scheme became effective on 24 November 2017 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time unless the Company obtains approval from its shareholders in general meeting and/or other requirements prescribe under the Listing Rules and must not exceed 30% of the total number of shares in issue from time to time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 7 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The period within which the shares must be taken up under an option shall be determined by the Board at its absolute discretion and in any event, such period shall not be longer than 10 years from the date upon which any particular option is granted in accordance with the Scheme.

The subscription price shall be determined solely by the directors, but may not be less than the higher of: (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option, provided that in the event of fractional prices.

The Company, by resolution in general meeting or the directors may at any time terminate the operation of the Share Option Scheme and in such event no further options of the Scheme will be offered but those options granted prior to such termination shall continue to be valid and exercisable in accordance with the previous provisions of the Scheme.

No share option has been granted since the adoption of the Scheme.

29. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities at the end of the reporting period.

30. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts, which are secured by the assets of the Group, are included in note 22 to the financial statements.

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its prepaid lease payments for buildings (note 17 to the financial statements) under operating lease arrangements, with leases negotiated for terms of six years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2017 **HK$'000**
Within one year	**1,300**
In the second to fifth years, inclusive	**5,444**
After five years	**699**
	7,443

(b) As lessee

The Group leases certain of its land and buildings and office equipment under operating lease arrangements, with leases negotiated for terms ranging from one to twenty years.

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 **HK$'000**	2016 HK$'000
Within one year	**1,930**	1,866
In the second to fifth years, inclusive	**6,485**	6,303
After five years	**884**	2,416
	9,299	10,585

32. COMMITMENTS

Except for the operating lease commitments detailed in note 31(b) above, the Group had the following capital commitments at the end of the reporting period:

	2017 **HK$'000**
Within one year	**6,551**

The Group did not have any significant capital commitment as at 31 December 2016 except for the operating lease commitments detailed in note 31(b) above.

33. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year ended 31 December 2017:

(a) Names of the Group's principal related parties and their relationship with the Group:

Name of related parties	Relationship
Mr. Wong	Director of the Company
Jinxin China Limited	Company controlled by Mr. Wong

(b) Significant related party transaction during the year ended 31 December 2017 are as follows:

	2017 **HK$'000**	2016 HK$'000
Management fee	–	423

Note: The management fee was charged by Jinxin China Limited ("Jinxin"), a related company controlled by Mr. Wong, in respect of its market development and customer management services provided to the Group. The rate of the management fee was determined primarily taking into consideration the labour costs incurred in the delivery of the relevant services. The management services were terminated in June 2016.

(c) The outstanding balance with a related party is as follows:

	2017		2016	
		Maximum amount outstanding		Maximum amount outstanding
	HK$'000	**HK$'000**	HK$'000	HK$'000
Jinxin	–	**63,087**	63,087	96,982

The above balance is unsecured, interest-free, non-trade in nature and repayable on demand and has been settled in November 2017.

(d) Compensation of key management personnel of the Group:

Details of the compensation of key management personnel of the Group, who are the directors, are disclosed in note 8 to the financial statements.

(e) Provision of guarantee by a related party:

	2017 **HK$'000**	2016 HK$'000
Bank loans guaranteed by:		
Mr. Wong	–	36,930

The above guarantee provided by Mr. Wong was released on the Listing Date.

34. DISPOSAL OF A SUBSIDIARY

In June 2016, the Group disposed of all of its interests in Zhihua to an independent third party for a cash consideration of RMB500,000 (equivalent to HK$584,000).

	Notes	2016 HK$'000
Net assets disposed of:		
Property, plant and equipment	*13*	2,836
Deferred tax assets	*25*	58
Prepayments, deposits and other receivables		1,269
Cash and cash equivalents		18
Other payables and accruals		(413)
Tax payable		(34)
Amount due to Jinxin		(7)
Amount due to Guangzhou Xinhua		(3,349)
		378
Exchange fluctuation reserve		(11)
Gain on disposal of a subsidiary		217
Satisfied by:		
Cash		584

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2016 HK$'000
Cash consideration	584
Cash and cash equivalents disposed of	(18)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	566

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

In June 2017, the Group offset its amount due from a related party against the consideration payable to the related party for the acquisition of subsidiaries under the Reorganisation amounting to HK$41.0 million.

(b) Changes in liabilities arising from financing activities:

	As at 1 January 2017 HK$'000	**Cash flows HK$'000**	**Non-cash changes Foreign exchange movement HK$'000**	**As at 31 December 2017 HK$'000**
Bank loans	**31,913**	**(9,325)**	**39**	**22,627**

	As at 1 January 2016 HK$'000	Cash flows HK$'000	Non-cash changes Foreign exchange movement HK$'000	As at 31 December 2016 HK$'000
Bank loans	52,300	(20,207)	(180)	31,913

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each reporting period are as follows:

31 December 2017

Financial assets

	Loans and receivables HK$'000	**Available-for-sale investment HK$'000**	**Total HK$'000**
Available-for-sale investment	**–**	**4,474**	**4,474**
Trade receivables	**24,900**	**–**	**24,900**
Financial assets included in prepayments, deposits and other receivables	**10,638**	**–**	**10,638**
Pledged deposits	**9,000**	**–**	**9,000**
Cash and cash equivalents	**57,920**	**–**	**57,920**
	102,458	**4,474**	**106,932**

36. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the end of each reporting period are as follows: *(Continued)*

31 December 2017

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	**9,269**
Financial liabilities included in other payables and accruals	**12,361**
Interest-bearing bank borrowings	**22,627**
	44,257

31 December 2016

Financial assets

	Loans and receivables HK$'000	Available-for-sale investment HK$'000	Total HK$'000
Available-for-sale investment	–	4,305	4,305
Trade receivables	13,888	–	13,888
Financial assets included in prepayments, deposits and other receivables	3,623	–	3,623
Due from a related company	63,087	–	63,087
Pledged deposits	9,000	–	9,000
Cash and cash equivalents	799	–	799
	90,397	4,305	94,702

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	8,538
Financial liabilities included in other payables and accruals	1,898
Interest-bearing bank borrowings	36,930
	47,366

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 31 December 2017 and 2016, the fair values of the Group's financial assets or financial liabilities approximated to their respective carrying amounts.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, an amount due from a related company, interest-bearing bank borrowings and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The directors review the results of the fair value measurement of financial instruments periodically for annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair value of the Group's available-for-sale investment was categorised within Level 3 of the fair value hierarchy which is measured based on significant unobservable inputs and has been estimated based on the surrender value of the policy as disclosed in note 14 to the financial statements. The directors believe that the estimated fair value and the related changes in fair values are reasonable, and that they were the most appropriate values at the end of the reporting period.

The movements in fair value measurements within Level 3 during the year ended 31 December 2017 are as follows:

	2017 **HK$'000**	2016 HK$'000
Available-for-sale investment — unlisted:		
At 1 January	**4,305**	–
Purchases	**–**	5,462
Total fair value changes recognised in other comprehensive income	**169**	(1,157)
At 31 December	**4,474**	4,305

The Group entered into a forward exchange rate contract with a bank, which was measured using valuation techniques similar to forward pricing models, using present value calculations. The models incorporate various observable inputs including the foreign exchange spot and forward rates. The fair value of the Group's derivative financial instrument was categorised within Level 2 of the fair value hierarchy which is measured based on significant observable inputs and the carrying amount of the forward exchange rate contract is the same as its fair value as disclosed in note 24 to the financial statements.

There were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 during the year ended 31 December 2017.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, an amount due from a related company and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate of 100 basis points, with all other variables held constant, of the Group's profit/(loss) before tax (through the impact on floating rate borrowings).

	Increase/(decrease) in the Group's profit before tax/ (Increase)/decrease in the Group's loss before tax	
	2017	2016
	HK$'000	HK$'000
If interest rates decrease by 100 basis points	**226**	357
If interest rates increase by 100 basis points	**(226)**	(357)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity to a reasonably possible change by 5% in the HK$ exchange rate against RMB and US$ exchange rate against RMB, with all other variables held constant, of the Group's profit/(loss) before tax due to changes in the translated values of monetary assets and liabilities.

	Increase/(decrease) in the Group's profit before tax/ (Increase)/decrease in the Group's loss before tax	
	2017	2016
	HK$'000	HK$'000
If HK$ strengthens against RMB	**(505)**	(1,763)
If HK$ weakens against RMB	**505**	1,763

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, an amount due from a related company and deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets.

As at 31 December 2017, the Group had certain concentrations of credit risk as 61% (2016: 51%) of the trade receivables were due from the Group's five customers. In order to minimise the credit risk, the financial department has been delegated by the management of the Group to be responsible for the determination of credit limits, credit approvals and other monitoring procedures and the review of the recoverable amount of each material individual debt at the end of each reporting period to ensure that adequate provision for impairment losses is made for irrecoverable amounts. In addition, the Group continuously monitors its trade receivable balances so as to ensure that the Group will not be subject to material bad debt risk. Since the Group only trades with third parties recognised to be creditworthy, management considers that the credit risk in respect of the Group's customers is limited. Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 16 to the financial statements.

Liquidity risk

The Group's policies are to regularly monitor the current and expected liquidity requirements, and to ensure that it maintains sufficient reserves of cash and available banking facilities to meet its liquidity requirements in the short and longer term.

The maturity profile of the Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payments, is as follows:

	31 December 2017		
	On demand HK$'000	**Within 1 year HK$'000**	**Total HK$'000**
Interest-bearing bank borrowings	**22,627**	**–**	**22,627**
Trade payables	**–**	**9,269**	**9,269**
Other payables and accruals	**36**	**12,325**	**12,361**
	22,663	**21,594**	**44,257**

	31 December 2016		
	On demand HK$'000	Within 1 year HK$'000	Total HK$'000
Interest-bearing bank borrowings	36,930	–	36,930
Trade payables	–	8,538	8,538
Other payables and accruals	160	1,738	1,898
	37,090	10,276	47,366

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

Note: Interest-bearing bank borrowings in the amounts of HK$22,627,000 (2016: HK$36,930,000) include a repayment on demand clause in the loan agreements giving the banks the unconditional right to call in the loans at any time and therefore, for the purpose of the above maturity profile, the amounts are classified as "on demand".

Notwithstanding the above clause, the directors do not believe that the loans will be called in their entirety within 12 months, and they consider that the loans will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the end of each reporting period, the Group's compliance with the loan covenants, the lack of events of default, and the fact that the Group has made all previously scheduled repayments on time. In accordance with the terms of the loans, the contractual undiscounted payments as at 31 December 2017 and 2016 were as follows:

	Within 1 year HK$'000	1 to 2 years HK$'000	Over 2 years HK$'000	Total HK$'000
31 December 2017	**19,679**	**193**	**3,285**	**23,157**
31 December 2016	33,048	2,206	2,628	37,882

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity plus net debt. Net debt includes interest-bearing bank borrowings, trade payables and other payables and accruals, less cash and cash equivalents.

The gearing ratios as at the end of the reporting periods were as follows:

	2017 HK$'000	2016 HK$'000
Interest-bearing bank borrowings	**22,627**	36,930
Trade payables	**9,269**	8,538
Other payables and accruals	**17,221**	9,764
Less: Cash and cash equivalents	**(57,920)**	(799)
Net debt	**N/A**	54,433
Total equity	**78,084**	61,385
Net debt and total equity	**N/A**	115,818
Gearing ratio	**N/A**	47%

39. EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Company or the Group after 31 December 2017 and up to the date of this annual report.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2017 HK$'000	31 December 2016 HK$'000
NON-CURRENT ASSETS		
Investment in a subsidiary	**–**	–
Total non-current assets	**–**	–
CURRENT ASSETS		
Amount due from subsidiaries	**15,048**	–
Prepayments, deposits and other receivables	**–**	660
Cash and cash equivalents	**50,110**	–
Total current assets	**65,158**	660
CURRENT LIABILITIES		
Other payables and accruals	**4,180**	660
Total current liabilities	**4,180**	660
NET CURRENT ASSETS	**60,978**	–
Net assets	**60,978**	–
EQUITY		
Share capital	**8,000**	–
Reserves *(note)*	**52,978**	–
Total equity	**60,978**	–

As at 31 December 2017, the investment in a subsidiary of the Company is US$1 (HK$8) (2016: US$1 (HK$8)).

Note:

A summary of the Company's reserves is as follows:

	Share premium HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
Balance at 18 August 2016 (date of incorporation)	–	–	–
At 31 December 2016 and 1 January 2017	–	–	–
Loss for the year	**–**	**(4,773)**	**(4,773)**
Issue of shares *(note 26)*	**73,000**	**–**	**73,000**
Share issue expenses *(note 26)*	**(9,249)**	**–**	**(9,249)**
Capitalisation Issue *(note 26)*	**(6,000)**	**–**	**(6,000)**
At 31 December 2017	**57,751**	**(4,773)**	**52,978**

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2018.

THREE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last three financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December		
	2017	2016	2015
	HK$'000	HK$'000	HK$'000
RESULTS			
REVENUE	**74,371**	72,624	82,829
Cost of sales	**(48,853)**	(45,617)	(56,558)
Gross profit	**25,518**	27,007	26,271
Other income and gains	**642**	1,515	678
Selling and distribution expenses	**(6,408)**	(6,952)	(7,668)
Administrative expenses	**(9,831)**	(7,752)	(8,195)
Other expenses	**(20,108)**	(10,303)	(1,317)
Finance costs	**(2,291)**	(2,892)	(3,238)
(LOSS)/PROFIT BEFORE TAX	**(12,478)**	623	6,531
Income tax expense	**(712)**	(1,100)	(1,853)
(LOSS)/PROFIT FOR THE YEAR	**(13,190)**	(477)	4,678
ATTRIBUTABLE TO OWNERS OF THE PARENT	**(13,190)**	(477)	4,678

ASSETS AND LIABILITIES

	As at 31 December		
	2017	2016	2015
	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**129,359**	118,334	149,743
TOTAL LIABILITIES	**(51,275)**	(56,949)	(82,332)
	78,084	61,385	67,411

Note: The financial information for the years ended 31 December 2015 and 2016 were extracted from the prospectus of the Company dated 30 November 2017. No financial statements of the Group for the years ended 31 December 2013 and 2014 have been published. The summary above does not form part of the audited financial statements for the year ended 31 December 2017.