TRISTATE

Tristate Holdings Limited

Annual Report 2017

Stock code: 458

Contents

Corporate Information

WANG KOO Yik Chun
Honorary Chairlady

Board of Directors

Executive Director:

WANG Kin Chung, Peter,
Chairman and Chief Executive Officer

Non-Executive Directors:

WANG KOO Yik Chun, *Honorary Chairlady*
MAK WANG Wing Yee, Winnie
WANG Shui Chung, Patrick

Independent Non-Executive Directors:

LO Kai Yiu, Anthony
James Christopher KRALIK
Peter TAN

Audit Committee

LO Kai Yiu, Anthony,
Chairman of the Audit Committee
MAK WANG Wing Yee, Winnie
James Christopher KRALIK

Remuneration Committee

James Christopher KRALIK,
Chairman of the Remuneration Committee
MAK WANG Wing Yee, Winnie
LO Kai Yiu, Anthony
Peter TAN

Share Option Committee

WANG Kin Chung, Peter,
Chairman of the Share Option Committee
MAK WANG Wing Yee, Winnie

Chief Financial Officer

AU King Lun, Paulina

Company Secretary

TO Hon Fai

Auditor

KPMG, *Certified Public Accountants*

Legal Advisors

On Hong Kong Law : Reed Smith Richards Butler
On Bermuda Law : Appleby

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
Citibank, N.A.
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
The Bank of East Asia, Limited

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Head Office and Principal Place of Business in Hong Kong

5th Floor, 66–72 Lei Muk Road
Kwai Chung, New Territories
Hong Kong
Tel : (852) 2279-3888
Fax : (852) 2480-4676
Website : http://www.tristateww.com

Corporate Communications

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5th Floor, 66–72 Lei Muk Road
Kwai Chung, New Territories
Hong Kong
Tel : (852) 2279-3888
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Email : cosec@tristateww.com

Listing Information

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 1988.

Stock short name : Tristate Hold
Stock code : 458
Board lot : 1,000 shares

Principal Registrar and Transfer Office

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda
Tel : (441) 299-3882
Fax : (441) 295-6759

Branch Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong
Tel : (852) 2862-8555
Fax : (852) 2865-0990

Five-Year Financial Summary

	2017 ***HK$'000***	2016 *HK$'000*	2015 *HK$'000*	2014 *HK$'000*	2013 *HK$'000*
Consolidated Statement of Profit or Loss					
Revenue	**1,922,706**	2,253,655	2,515,738	3,580,029	3,599,903
(Loss)/profit for the year attributable to:					
Equity shareholders of the Company	**(64,180)**	(84,091)	(45,669)	148,277	43,439
Non-controlling interests	**(800)**	(2,520)	(22)	21	(36)
(Loss)/profit for the year	**(64,980)**	(86,611)	(45,691)	148,298	43,403
Basic (loss)/earnings per share attributable to equity shareholders of the Company	**HK$(0.24)**	HK$(0.31)	HK$(0.17)	HK$0.55	HK$0.16

	As at 31 December 2017 ***HK$'000***	As at 31 December 2016 *HK$'000*	As at 31 December 2015 *HK$'000*	As at 31 December 2014 *HK$'000*	As at 31 December 2013 *HK$'000*
Consolidated Statement of Financial Position					
Non-current assets	**696,212**	676,865	821,069	802,932	975,666
Current assets	**1,086,299**	1,199,914	1,401,159	2,041,360	1,761,598
Current liabilities	**411,690**	527,933	743,478	1,175,690	1,109,124
Net current assets	**674,609**	671,981	657,681	865,670	652,474
Total assets less current liabilities	**1,370,821**	1,348,846	1,478,750	1,668,602	1,628,140
Non-current liabilities	**77,733**	112,873	96,904	115,631	171,358
Net assets	**1,293,088**	1,235,973	1,381,846	1,552,971	1,456,782
Total equity attributable to equity shareholders of the Company	**1,296,036**	1,238,121	1,381,532	1,552,635	1,456,467
Non-controlling interests	**(2,948)**	(2,148)	314	336	315
Total equity	**1,293,088**	1,235,973	1,381,846	1,552,971	1,456,782

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Our Business

We are pleased to report that investment in our own brands began to see improved results in 2017 and in particular, C.P. Company, a premium Italian sportswear brand, recorded over 80% growth in its Spring/Summer 2017 and Fall/Winter 2017 revenue over same seasons of last year. It is also encouraging to see that the growth momentum continued with its Spring/Summer 2018 sales orders attaining over 60% as compared with that of last year.

On our garment manufacturing business, revenue of outerwear products remained stable but slightly dropped by 4% as compared with last year amid keen competition. Sales of dress up tailoring products decreased by 22% in 2017 as we have reduced our capacity for some categories with challenging price and customers with high credit risk.

As reported last year, our brands business was impacted by the contractual expiry of the Nautica distribution license at end of 2016, and a reducing consultancy fee income from the Jack Wolfskin China business. However, C.P. Company's improved business performance and our cost control in operations reduced the loss of brands business in 2017.

For the year ended 31 December 2017, the Group's revenue decreased to HK$1,923 million from HK$2,254 million in last year, while a loss attributable to equity shareholders of HK$64 million was recorded as compared with the loss of HK$84 million in 2016. The Board of Directors of the Company does not recommend the payment of a final dividend.

Our Performance

Brands Business

After acquisition of C.P. Company in 2015, we recorded its first full year results in 2017 with improving performance. During the year, we grew strong in our key markets such as United Kingdom and Italy. In addition, we expanded our presence in other European markets, such as Benelux, Scandinavia and Russia, with encouraging growth. We stepped up our marketing efforts focusing on target audiences by launching global marketing campaign "#EyesOnTheCity" which received positive response. The idea of "#EyesOnTheCity" is an exploration of urban environments from the perspective of the C.P. Company customers. The iconic goggle jacket is the symbol & shield of the customers as they explore their cities and share their personal distinctive experiences on the social media channels such as Instagram and Facebook. Besides, C.P. Company collaborated with Gorillaz, a famous British band, to create specially designed cloaks for its opening performance at Dreamland Margate, England in June 2017, which was well received by audiences.

The heritage and innovation are the engine of C.P. Company's unique brand identity. With proprietary fabrics, garment dye and goggle jackets, we continued to strengthen our own design and innovate new products.

During the year, we continued to develop two home-grown lifestyle brands – Engineered for Motion ("EFM"), our urban apparel NYC designer brand, and our French concept premium ladies' wear "Cissonne". The partnering of EFM with Saks Fifth Avenue enabled us to reach more end customers and created brand awareness for targeted audience. Cissonne gradually expanded by opening retail stores in upscale shopping malls in Shanghai and Beijing. The brand has now four stores in China.

Our licensed Italian brand "ACBC", a zipper shoe concept by mix and match skins and soles to fit any occasion for commuters, was successfully launched in late December 2017 in China. This patented footwear is designed to improve commuting and travelling performance. We set up one pop-up store in Shanghai to enhance customers' experience on its customised, travel light and eco-friendly features. We now have five brand experience stores at key shopping centers in Shanghai and Beijing.

Garment Manufacturing

Our capability in complex outerwear production enables us to have stable revenue from higher margin premium outerwear brands, though our garment manufacturing business recorded less revenue contribution as compared to last year. This was because, externally, major international retailers suffered from soft apparent industry and we saw closures of department stores in the United States of America (the "US") and Europe, while internally, we have reduced our capacity for dress up tailoring products with challenging price and customers with high credit risk.

To deal with the tough operating environment, we focused to utilise resources at our factories better. We shifted the production of competitive price and less complicated products from China to Southeast Asia to control production cost. We continued to apply and enhance our unique manufacturing system in our China factories where we operate a multi-level automation and specialization production system using special machines and skill modules. It allows us to meet our customers' requirements for orders requiring high quality standard with multiple styles in varying quantities. All these measures help to control rising factory costs and price pressure from our customers.

Despite the challenges from increase in production of complex products, elevation of quality standard and competitive pricing, the garment manufacturing business reported a profit of HK$16 million, which was 73% lower than 2016.

Outlook

C.P. Company remains true to its unique brand DNA. We see opportunities ahead with significant growth potentials. In early this year, we formulate a 3-year business plan from 2019 to 2021 to grow the brand. We have analysed the positioning of C.P. Company in the premium sportswear market, its product offer and its brand awareness. We will grow revenues in all channels: wholesale, retail and e-commerce. We continue our focus to grow wholesale markets in Europe, as well as North America and Asian markets including China. The brand will also tap into direct retail channels through opening new retail stores and e-commerce. We will enhance brand awareness and drive strong sell-through by bold marketing through digital channels, global marketing campaign "#EyesOnTheCity" along with various public relations and in-store activities. In this year, we will have another collaboration opportunity with Adidas, an international sports brand, to further boost its sportswear image. We continue to strengthen the product range and develop lifestyle global collections combined with international multi-cultural design with an aim to reach international customers who are fashion conscious, modern, web-connected and love performance fabrics, comfort and details.

While our licensed brand "ACBC" plans to increase presence through brand experience centres and pop-up stores in key shopping centres in Shanghai and Beijing this year, we will proactively look for license opportunities with international brand owners to increase our brands business portfolio. The revenue of EFM will grow via improving sell-through and Cissonne will continue to open retail stores sensibly.

To cope with the challenges faced by our garment manufacturing business, we continue to reinforce quality standard, technical knowhow and product innovation, while improving operational cost. We initiate our unique manufacturing system with our Southeast Asian factories, facilitating the production of outerwear products, to guarantee quality and production consistency. Leveraging on our "Trinovation Lab", the luxury sportswear R&D center for product innovation on material, construction and design, we develop innovative value-added services to meet fashion trends and customers' requirements. To address the ever-increasing cost in China, we continue to develop capability of the Vietnam factory on production of outerwear products and will allocate more price competitive outerwear orders to this factory in coming years. We will expand our supply chain for ladies' tailoring garments from competitive cost locations. This will not only serve as value driver to strengthen our supply chain service, but also attract new business from existing and new customers.

While it takes time for the Group to transition its brands business which requires time and investments, we remain cautious about the full year financial performance and expect the Group will continue to result in a loss for the whole year 2018. We are confident that our garment manufacturing business will maintain stable performance and generate strong cash flow given our proven production capability, and we are on the right track to grow our brands business for sustainability and success of the Group.

Appreciation

I would like to take this opportunity to extend my gratitude to my fellow Directors, the management team and our staff for their continuing dedication, professionalism and enthusiasm. I would also like to thank all our customers, business partners and shareholders for their ongoing trust and support for the Group.

Wang Kin Chung, Peter
Chairman and Chief Executive Officer

Hong Kong, 26 March 2018

Management Discussion and Analysis

In this Management Discussion and Analysis, we present the business review and a discussion on the financial performance of the Group for the year ended 31 December 2017.

Overview

For the year ended 31 December 2017, the Group recorded a loss attributable to shareholders of HK$64 million as compared with a loss of HK$84 million in 2016. The Group's 2017 performance continues to reflect the transitions of the Group's brands business and the challenging and competitive operating environment faced by our garment manufacturing business.

The Group continued our plan of investment in brands in 2017, with C.P. Company's strong growth in revenue and substantial reduction on operating loss. On the other hand, as mentioned in our 2016 annual report, the Group's 2017 top-line and performance continued to be impacted by the expiry of the Nautica distribution license at end of 2016, and a reducing consultancy fees income from Jack Wolfskin China business.

After acquisition by the Group in 2015, C.P. Company reported its first full year results in 2017 with improving sales growth driven by continued strength in wholesale business. With our own design and innovative new products, both C.P. Company's Spring/Summer 2017 and Fall/Winter 2017 revenue attained over 80% growth over last year of homologous seasons. Following the two seasons' strong growth, the momentum continues with Spring/Summer 2018 sales orders attained over 60% year on year growth. In terms of markets, Europe continues to be our largest market. Strong growth continues for key countries with well-established wholesale channels, especially for the United Kingdom (the "UK"), Italy and Korea. Benelux, Scandinavia and Russia are also developing rapidly. To better connect to our customers and expand into new markets, we have now in total four showrooms: Tokyo showroom opened in 2016, Milan main showroom and New York showroom opened in early 2017, and Shanghai showroom opened in early 2018. We also stepped up our marketing efforts by rolling out global marketing campaign "#EyesOnTheCity" in April 2017, starting from the UK and Italy with encouraging response. The program invites our customer community to take a picture of their C.P. Company goggle jacket and their city as background and share their personal distinctive urban perspective and experiences on social channels. In another marketing campaign, C.P. Company created specially designed cloaks in collaboration with the British band Gorillaz in their opening performance for a one-day festival extravaganza at Dreamland Margate, England in June 2017 with positive response from audiences.

Apart from C.P. Company, the Group continues to develop our two home-grown lifestyle brands – Engineered for Motion ("EFM"), our urban apparel NYC designer brand, and our French concept premium ladies' wear "Cissonne". EFM grew gradually with key customers in the US, including partnership with Saks Fifth Avenue. EFM's Fall/Winter 2017 had better sell through than previous seasons as retail price point was more accessible and after-sales services were more consumer-centric. Cissonne gradually expanded through direct retailing in China major cities with increasing sell-through and customer loyalty. The brand has now four stores in China, including stores in Shanghai Kerry Centre, Shanghai Zhenning Road, Beijing Sanlitun and Hangzhou MIXC Shopping City.

In 2016, the Group entered into a long-term license agreement with the owner of Italian brand "ACBC" for sourcing and distribution of their footwear products in the People's Republic of China (the "PRC"). The ACBC patented zipper shoe is supported by a team of fashion designers, industrial designers and engineers who work to create innovation and improve commuting and travelling experience. It allows users to customise, mix and match the shoe skins and soles to fit any occasion. During this year, the Group set up the sales and distribution organisation for ACBC and the first store of the brand was launched at Shanghai Grand Gateway in December 2017. Up to March 2018, another four brand experience stores were opened at Shanghai Joy City Shopping Mall, Shanghai Touch Mall, Beijing Cloud Nine Shopping Mall and Beijing Shijingshan Wanda Plaza.

On our garment manufacturing business, the challenges to physical stores and changing landscape of the fashion industry continue to affect our fashion brand customers and our business. In 2017, revenue from outerwear products was affected by the competitive market. We continue to maintain steady long-term relationship with our outerwear customers. We reduced our capacity for some dress up tailoring categories with challenging price and customers with high credit risk. During the year, we expanded our customer base with new customers in Europe. On production, we have outerwear products mainly manufactured in our China and Thailand factories while dress up business at competitive pricing produced at our lower cost production bases – Vietnam and Myanmar. We adjusted our capacity in response to the seasonality of outerwear production and reallocated some products from China factories to our lower cost Southeast Asian factories. We continued to apply and enhance our unique manufacturing system in our China factories where we operate a multi-level automation and specialisation production system using special machines and skill modules. With quality enhancement and technical knowhow improvement, we were able to meet customers' stringent requirements on changes in product type and style, variations in quantity and complex products. All these measures help to control rising factory costs and price pressure from our customers.

Financial Highlights

	Note	**2017**	2016	Change
Operating results (HK$ million)				
Revenue		**1,923**	2,254	–15%
Gross profit		**422**	530	–20%
Loss before interest and tax		**(67)**	(63)	–6%
Loss attributable to equity shareholders		**(64)**	(84)	+24%

Management Discussion and Analysis

	Note	2017	2016	Change
Segment results (HK$ million)				
Garment manufacturing segment results before tax		**19**	71	−73%
Garment manufacturing segment results after tax		**16**	60	−73%
Brands business segment results before tax		**(68)**	(80)	+15%
Brands business segment results after tax		**(68)**	(80)	+15%
Financial position (HK$ million)				
Current assets		**1,086**	1,200	−10%
Current liabilities		**412**	528	−22%
Cash and bank balances		**513**	523	−2%
Bank borrowings		**99**	199	−50%
Total equity		**1,293**	1,236	+5%
Cash flow and capital expenditure (HK$ million)				
Cash generated from operations		**107**	68	+57%
Capital expenditure				
Property, plant and equipment		**(28)**	(30)	−7%
Key ratios				
Gross profit margin		**21.9%**	23.5%	−1.6 pp
Operating loss margin		**(3.5%)**	(2.8%)	−0.7 pp
Net loss margin attributable to equity shareholders		**(3.3%)**	(3.7%)	+0.4 pp
Return on average equity ("ROE")	1	**(5.1%)**	(6.4%)	+1.3 pp

Note:

1. ROE is calculated as loss attributable to equity shareholders over average total equity for the current and prior year.

Financial Review

For the year ended 31 December 2017, the Group recorded a loss attributable to equity shareholders of HK$64 million (2016: HK$84 million). In 2017, the Group's results were impacted by the drop of consultancy fee income from Jack Wolfskin Trading (Shanghai) Co., Ltd. ("JW PRC Co"), continued investment in brands business and lower profit from our garment manufacturing business.

Revenue

Total revenue of the Group for the year 2017 was HK$1,923 million (2016: HK$2,254 million), representing a decrease of 15% as compared with the last year.

Revenue from the brands business was HK$225 million as compared with HK$378 million in 2016. The 2016 revenue included HK$245 million sales of Nautica products, and there is no such revenue in 2017 after the contractual expiry of the Nautica distribution license. Revenue in this year mainly comprises full year sales revenue of C.P. Company, while in the last year the brand only contributed revenue from Fall/Winter 2016 in the second half year. In 2017, around 90% of C.P. Company's revenue were from wholesale of Europe, with the remaining from retail and e-commerce.

Revenue from the garment manufacturing segment was HK$1,698 million as compared with HK$1,876 million in 2016. Revenue from higher margin outerwear products for global premium fashion brand customers accounted for 74% (2016: 69%) of the segment revenue. Revenue of outerwear products dropped by 4% as compared with last year due to keen competition. In general, sales of outerwear products shifted our peak production season to the second and third quarters while sales income are skewed towards Fall/Winter seasons. Sales of dress up tailoring products mainly to national brand customers decreased by 22% in 2017 as we reduced our capacity for some categories with challenging price and customers with high credit risk.

Geographically, major markets of the Group are US and Canada, UK and the PRC, which accounted for 39% (2016: 40%), 28% (2016: 25%) and 14% (2016: 27%) of the Group's total revenue respectively. The change in geographical sales proportion is mainly due to the expiry of the Nautica distribution license for China.

The Group's business has been skewed towards the second half year mainly due to the seasonality effect in terms of higher quantity and unit selling price for Fall/Winter and holiday seasons shipment for both our garment manufacturing and brands business. The Group expects that the pattern of a larger proportion of sales and earnings record in the second half of the year will continue in future.

Gross Profit

During the year, the Group's overall gross profit recorded at HK$422 million (2016: HK$530 million), representing a gross profit margin of 21.9% (2016: 23.5%). The decrease in gross profit was mainly attributable to reduced revenue from both brands business and garment manufacturing business. Gross profit margin of brands business increased due to improved margin of C.P. Company along with business growth. Gross profit margin of the garment manufacturing business was slightly lower than the previous year as production efficiency was affected by increase in production of complex products, elevation of quality standard and competitive pricing. The Group's overall gross profit margin decreased due to the drop of higher margin brands business revenue.

Other Income and Other Gains

Other income and other gains mainly include consultancy and transitional services fees income from the Jack Wolfskin China business. As mentioned in the 2016 annual report, the Group receives consultancy fee income from JW PRC Co from 2015 to 2017 on a reducing scale. Because of the agreed lower calculation basis, the 2017 consultancy fee income from JW PRC Co was lower than 2016. In 2016, the Group also received transitional services fee from JW PRC Co.

Selling and Distribution Expenses

Selling and distribution expenses comprise mainly advertising and promotion, shop and royalty expenses of the brands business. Selling and distribution expenses decreased as compared to 2016 mainly due to the Nautica license expiry at end of 2016.

General and Administrative Expenses

General and administrative expenses dropped by 17% to HK$421 million as compared with HK$506 million in 2016 mainly due to scale down the business organization of Nautica upon the license expiry.

Income Tax Expenses

Income tax expenses for the year reduced mainly due to reversal of deferred tax liabilities on retained earnings, and lower profit under our garment manufacturing business.

Segment Results

In 2017, the segment loss of brands business reduced mainly due to improved results of C.P. Company, despite a reduction in consultancy fee income from JW PRC Co and continued development costs for the brands of ACBC, EFM and Cissonne.

Segment results for garment manufacturing business dropped as compared with 2016 mainly due to the reduced revenue and efficiency impact mentioned under gross profit section.

There were no material acquisitions or disposals of subsidiaries or associated companies during the year and up to the date of this report. No important events affecting the Group have occurred since 31 December 2017 and up to the date of this report.

Financial Resources and Liquidity

As at 31 December 2017, cash and bank balances amounted to HK$513 million (2016: HK$523 million) which mainly represented United States dollars ("US dollars") and Renminbi bank deposits. Short-term bank borrowings of the Group amounted to HK$99 million as at 31 December 2017 (2016: HK$199 million). Such borrowings were denominated in US dollars and bearing interest at fixed rates. The Group maintained sufficient banking facilities and did not have any long-term bank borrowings as at 31 December 2017 and 2016. As at 31 December 2017 and 2016, banking facilities extended to the Group were not secured with the Group's assets. The gearing ratio of the Group is calculated as net borrowings divided by total capital. Net borrowings are calculated as total bank borrowings less cash and bank balances, while total capital comprised total equity plus net borrowings. The Group did not have net borrowings as at 31 December 2017 and 2016, and accordingly, no information on gearing ratio as at that dates is provided.

Cashflow from operations increased as compared with the previous year mainly due to improved cashflow from C.P. Company European business, more consultancy fees receipts from JW PRC Co as per payment schedule and cost savings.

Shareholders' equity at 31 December 2017 increased mainly due to the net effect of exchange difference on translating the financial statements of subsidiaries in the PRC, Europe and Thailand following the appreciation of their local currencies during 2017, changes in hedging reserve for forward contracts and the current year's loss attributable to equity shareholders.

Most of the Group's receipts and payments are denominated in US dollars, Hong Kong dollars, Renminbi, Pound Sterling and Euro. Management monitors the related foreign exchange risk exposure by entering into forward foreign exchange contracts. During the year ended 31 December 2017, the Group had forward foreign exchange contracts to hedge against the foreign exchange exposures arising from US dollars denominated processing income for factories in the PRC and Pound Sterling sales receipts of a European subsidiary. Foreign currency exchange rates are volatile. Management evaluates the Group's foreign currency exposure on a continuing basis and takes actions to minimise the Group's exposure whenever necessary.

Contingent Liabilities and Capital Commitments

There were no material capital commitments or contingent liabilities as at 31 December 2017 which would require a substantial use of the Group's present cash resources or external funding.

Human Resources

The Group had about 9,560 employees as at 31 December 2017 (2016: 10,680). Fair and competitive remuneration packages and benefits are offered to employees. Those employees with outstanding performance were also awarded discretionary bonuses and share options.

Outlook

The Group dedicates to grow brands business and at the same time strengthen garment manufacturing business for creation of synergy between both.

Since acquisition of C.P. Company, we have seen encouraging double digit sales growth every season and strong potential. The heritage of C.P. Company in proprietary fabrics, garment dye and goggle jackets are already powerful icons in attracting customers. We shall continue to strengthen the product range, innovation and design and widen our collections to customers. We will continue to increase efficiency in order fulfillment and speed-to-market. Through the best wholesale partners, we grow existing key wholesale markets and further expand new growth markets in Europe as well as enter into the North America and Asian markets including China. We also plan to grow by directly retail to customer through opening retail stores and e-commerce. Based on latest orders received from our Fall/Winter 2018 sales campaign, we continue to enjoy a high double-digit revenue growth from wholesale. Our consumer-centric marketing initiatives help to connect our consumer community and promote the brand richness in terms of design, materials and heritage. Through our global marketing campaign "#EyesOnTheCity", we give space to personalities who becomes protagonist of the C.P. Company lifestyle. We will further develop and communicate the storytelling around them and the C.P. Company products they are wearing. In 2018, C.P. Company will have a collaboration with Adidas, an international sports brand, to promote C.P. Company brand awareness and image.

The revenue of EFM will grow gradually with key customers in the US. EFM aims to further increase customer acceptance and sell-through. Cissonne will continue to grow direct retail in China sensibly by focusing on the excellence in product, increasing sell-through and reaching out to the market through concept stores and celebrity seeding.

For ACBC, in 2018 we shall improve comfort and fit, customer in-store experience and enhance brand awareness and acceptance. We plan to gradually increase presence through brand experience centres and pop-up stores in key cities in China.

Our garment manufacturing business will continue to be challenging. We shall improve profitability of the business by maintain high quality standard, uplift technical knowhow and product innovation while improving operating costs. We will initiate our unique manufacturing system with our Southeast Asian factories to guarantee high productivity and quality consistency. With the support of "Trinovation Lab", our luxury sportswear R&D center for continuing product innovation on material, construction and design, we develop innovative value-added services to meet fashion trends and customers' requirements. To expand our services and business, we will expand supply chain for middle market ladies tailoring garments with vendors from competitive cost locations. This will not only serve as an additional value driver to our existing customers, it will also attract new business from existing and new customers. To combat cost increase in our factories, we continue to drive efficiency and tighten cost control for all our factories. For price competitive outerwear products, we continue to develop our lower cost Vietnam factory to manufacture those products with good response from our customers. We will allocate more price competitive outerwear orders to the factory in the coming two to three years.

While C.P. Company is well positioned for the next level of growth, it takes time for our other developing brands to gain acceptance by market and grow in revenue. We are confident that our garment manufacturing business will maintain stable performance and continue to generate steady strong cash inflow to support the Group's business. We are cautious about our 2018 financial performance and expect the Group will continue to record a loss due to the time and investments required in brands. However, with our plans and measures, we are confident that we are on the right track for the long-term sustainability and success of the Group. The Group will continue to look for new business opportunities.

Principal Risks and Uncertainties

The Group has an enterprise risk management mechanism in place to identify, evaluate and manage its exposure to risks. Management oversees the risks and implement robust business processes to mitigate the risks. Existing and emerging risks are identified, evaluated and tracked regularly by top management and reported to the Audit Committee.

Principal risks and uncertainties affecting the Group are outlined below:

External Risks	Operational Risks	Financial Risks
Macroeconomic Environment Business Partner's Change in Business Strategy Regulatory Risks	Increased Cost Environment & Social Responsibility IT Risks	Liquidity and Interest Rate Foreign Exchange

The responses of the Group to the principal risks and uncertainties are set out below:

Nature of Risks	Responses
External Risks	
Macroeconomic Environment – The principal business activities of the Group are garment manufacturing and brands business with worldwide customers located in Europe, North America and Asia. The industries in which the Group operates are affected by the economic conditions and consumer spending behavior in these locations. Change in economic condition may reduce the demand of our products.	– Geographic spread of customers and multiple sales channels will mitigate localised economic risks. – Annual budget is approved by the Board. – Quarterly financial performance and forecast are reported to the Board. – Internal review between Business Unit Heads and Corporate Finance Team on the monthly financial performance. – Monthly rolling forecast review where annual budget will be compared with actual and forecast figures. Variance analysis to account for the difference between budget and actual figures. – Monthly meeting to review business, sales and marketing performance.

Nature of Risks	Responses
External Risks (Continued)	
Business Partner's Change in Business Strategy	
– Garment manufacturing customer's strategy change in sourcing locations and competitive pricing may cause the Group to lose orders and revenue.	– Our factories are located in different countries and serve a wide range of products with different price levels.
– Change in market entry and licensing strategy by brand owners of our licensed brands has caused the Group to lose distribution rights in licensing branded products.	– The Group's ongoing strategy in developing brands business will help to mitigate the impact of loss of revenue in distributing licensed brands products.
Regulatory risks	
– The Group is increasingly subject to a broad and changing legal, tax, and regulatory requirements in the various jurisdictions the Group operates. New and changing policies or applications by governments may pose a risk to the Group's returns and/or subject the Group to legal challenge.	– The Group continually monitors changes in local government policies and legislation. – Ongoing long term strategic reviews with assessment of market and country concentration.
Operational Risks	
Increased Cost	
– Increased cost will impact the profitability of our business.	– For our brands business, we have our own sourcing team with diversified supply network to handle product sourcing. – For garment manufacturing business, our Group effectively earns cut and make profit. Increased cost in fabric material has little impact to the Group. – Diversification of factories and supply chain in various countries in Asia and production process improvements will help to offset the rise in wages and staff costs.
Environment and Social Responsibility	
– Failure to comply with applicable laws, regulations or standards related to environment and social responsibility may adversely impact our employees, lose production time and attract negative media attention and regulators' interest.	– Manage internal controls over our significant environmental aspects with aim to enhance the efficiency of resource use and reduce environmental emissions in our business operation. – Apply equal opportunities principles in all employment policies.
IT Risks	
– When there is IT system outage or cyberattack, all the IT systems may come to a halt causing not only business interruption but also loss of confidential information such as personal data of employees or consumers of the e-shop.	– Appropriate controls and technology have been deployed to mitigate the risk of system outages and cyberattack. They include preventive system maintenance, regular security checks, installation of fire-wall and anti-virus software, multi-level security, uninterrupted power supply, daily off-site backup of key application systems and data, regular disaster recovery drill, assignment of job-related access rights, well-defined access controls system. – Although e-shop is run on a third-party platform which is operated by an on-line distributor, the e-Commerce service agreement specifies that the on-line distributor should maintain and update all the technological elements necessary to guarantee the proper functioning of the e-shop, the safety of the systems underlying the e-shop and the protection of the personal data according to applicable laws and market practices.

Nature of Risks	Responses
Financial Risks	
Liquidity and Interest Rate – Cash and treasury management may not be operating effectively leading to liquidity risk.	– Closely monitor to ensure that the combination of cash on hand, available credit lines and expected future operating cash flows is sufficient to satisfy current and planned cash needs.
– Cashflows and profitability will be negatively impacted by the movement of interest rates on bank balances and bank borrowings.	– Closely monitor the movement of market interest rate and consider interest rate hedging when necessary.
Foreign Exchange – The Group has operations in the PRC, Europe, North America and Asia. It earns revenues, incurs costs and makes investments in various foreign currencies and is thus exposed to foreign exchange risk arising from various currency exposures.	– The Group manages significant foreign exchange risk against the respective subsidiaries' functional currencies arising from future commercial transactions, recognised assets, liabilities and net investment in foreign operations principally by means of forward foreign exchange contracts. Our hedging strategy may not be effective in reducing all exchange risks.
– The conversion of Renminbi receipts into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange in the PRC.	– The Group endeavors to maintain adequate and reasonable amount of Renminbi deposits in the PRC and remit surplus Renminbi out of the PRC.

Relationship with Business Partners and Stakeholders

Relationship with Customers

The Group maintains long-term relationships with customers of our garment manufacturing and brands business. The Group has developed multi-products strategy and also strengthened our scope of services to our global brands customers. The Group has no concentration or a high level of dependency on individual customer.

Relationship with Suppliers

The Group maintains long-term relationships with suppliers and subcontractors. The Group has no concentration or a high level of dependency on a small group of suppliers. The suppliers of our garment manufacturing business are generally nominated by customers. For suppliers of our brands business, we communicate with them all the way through for them to understand our policies and requirements.

Relationship with Employees

The Group recognises and supports the culture of attracting, motivating and retaining talents. The Group provides competitive compensation and benefits for its employees. Remuneration packages are generally structured by reference to market and individual merits. Salaries are normally reviewed on an annual basis based on individual performance and financial performance of the Group. Those employees with outstanding performance are also awarded discretionary bonuses and share options. The Group promotes open communications, encourages continuous learning and support different kind of training on leadership development programme.

Compliance with Relevant Laws and Regulations

We uphold high standards and meet relevant requirements under applicable laws or ordinances when conducting our business. We did not identify non-compliance or breach of relevant standards, rules and regulations during the year.

Environmental and Social Policies

The Group is committed to creating a sustainable and greener environment and continues to explore ways to reduce carbon emission, conserve energy and reduce wastage. We have implemented various environmental and sustainability initiatives in our factories. Being a responsible social citizen, the Group has been committed to supporting various charitable events, including making donations in relation to education, disaster reliefs and for the less-privileged, in particular supporting local society needs where our group companies locate for the long term. Since 2015, the Company has been participating in the Caring Company Scheme and we collaborated with The Salvation Army on various charitable activities, such as fund raising and volunteer works. Our "Environmental, Social and Governance Report", which discusses in detail our initiatives on environmental and social aspects and their performance, is set out in the "Environmental, Social and Governance Report" section of this Annual Report.

Corporate Governance Practices

The Board is committed to maintaining good corporate governance and recognises the importance of effective corporate governance.

Throughout the year ended 31 December 2017, the Company has complied with all the Code Provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), except for the deviations from Code Provisions A.2.1 and A.5.

Details of the corporate governance practices adopted by the Company are set out below.

The Board

Board Composition

The Board currently comprises one Executive Director, Mr. WANG Kin Chung, Peter, who is also the Chairman and the Chief Executive Officer ("CEO") of the Company; three Non-Executive Directors, namely Ms. WANG KOO Yik Chun, Ms. MAK WANG Wing Yee, Winnie and Dr. WANG Shui Chung, Patrick; and three Independent Non-Executive Directors, namely Mr. LO Kai Yiu, Anthony, Mr. James Christopher KRALIK and Mr. Peter TAN. Biographies of the Directors are set out in the "Directors' and Senior Management's Profiles" section of this Annual Report.

The Board annually reviews its structure, size and composition to ensure the Board has the appropriate balance of skills, experience and diversity of perspectives that are required to implement the business strategy of the Group and in order for the Board to be effective.

The Board has adopted a board diversity policy with an aim to set out the approach to achieve diversity on the Board. Pursuant to the policy, board diversity would be considered from a number of factors including, but not limited to, gender, age, ethnicity, cultural and education background, professional experience, skills and knowledge. An analysis of the current Board composition is set out in the following chart:

Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company and a Non-Executive Director, is the mother of Mr. WANG Kin Chung, Peter (the Chairman and the CEO), Ms. MAK WANG Wing Yee, Winnie (Non-Executive Director) and Dr. WANG Shui Chung, Patrick (Non-Executive Director).

All Directors are identified by category of Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in all corporate communications that disclose the names of Directors of the Company.

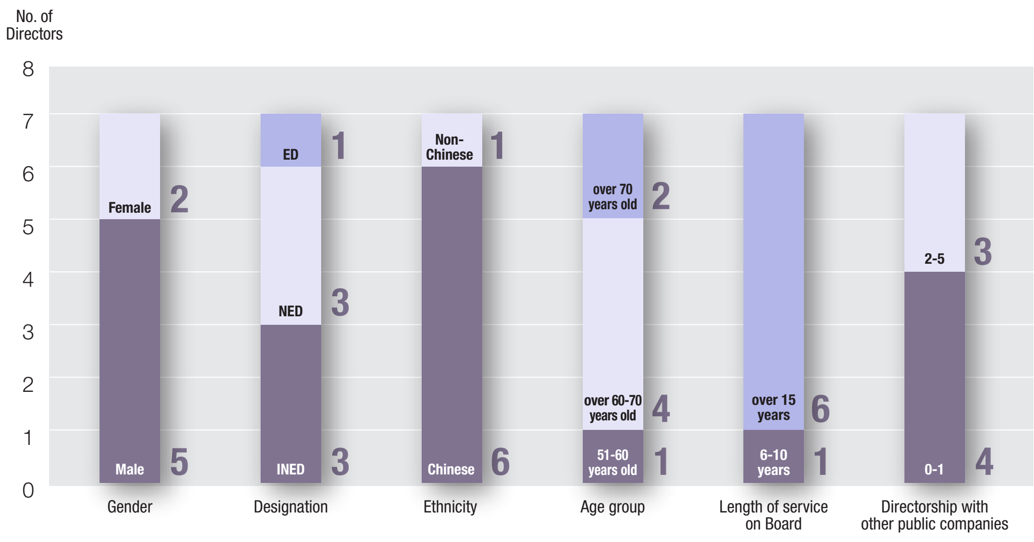
The Company maintains on its website and on the Stock Exchange's website an updated list of its Directors identifying their role and function.

Chairman and Chief Executive Officer

During the year ended 31 December 2017 and up to the date of this report, Mr. WANG Kin Chung, Peter is the Chairman and the CEO, and that the functions of the Chairman and the CEO in the Company's strategic planning and development process overlap. These constitute a deviation from Code Provision A.2.1 which stipulates that the roles of the Chairman and the CEO should be separate and should not be performed by the same individual.

Mr. WANG Kin Chung, Peter has been with the Group since 1999 and has considerable experience in the garment industry. He provides leadership for the Board in leading, considering and setting the overall strategic planning and business development of the Group. Given the current size of the Group and its present stage of development, the Board considers that it is in the interests of the Group that Mr. WANG Kin Chung, Peter holds both the offices of the Chairman and the CEO so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is capable to guide discussions and brief the Board in a timely manner on key issues and developments.

Given that there is a balanced Board with more than one-third of its members being Independent Non-Executive Directors, the Board is of the view that there is a strong independent element in the Board to exercise independent judgement and provide sufficient check and balance.



ED : Executive Director
NED : Non-Executive Director
INED : Independent Non-Executive Director

Appointment and Election of Directors

The Company has not established a nomination committee owing to the small size of the Board. The Board as a whole shall perform the duties of a nomination committee set out in Code Provision A.5. This constitutes a deviation from Code Provision A.5 which stipulates that every listed company should establish a nomination committee.

Non-Executive Directors (including Independent Non-Executive Directors) are appointed for a specific term of three years commencing 1 January 2017, subject to re-election or earlier determination in accordance with the Bye-Laws of the Company and/or applicable laws and regulations.

All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment. All Directors of the Company (save for any executive chairman and any managing director) shall be subject to retirement by rotation at least once every three years and that a Director may voluntarily retire. A retiring Director shall be eligible for re-election.

Accordingly, at the forthcoming annual general meeting of the Company to be held on 25 June 2018 (the "2018 AGM"), Mr. WANG Kin Chung, Peter will voluntarily retire for the purpose of compliance with Code Provision A.4.2, and Dr. WANG Shui Chung, Patrick and Mr. LO Kai Yiu, Anthony will retire by rotation and, being eligible, offer themselves for re-election as Directors in accordance with the Bye-Laws.

The Board has assessed the independence of Mr. LO Kai Yiu, Anthony who has been Independent Non-Executive Director of the Company for more than nine years and considers that he continues to be independent, notwithstanding the length of his tenure, as he satisfied all the criteria for independence as set out in Rule 3.13 of the Listing Rules. The re-election of Mr. LO Kai Yiu, Anthony as Independent Non-Executive Director will be subject to a separate resolution to be approved by shareholders at the 2018 AGM.

Particulars of the aforesaid retiring Directors and the recommendation of the Board for their re-election are set out in a circular of the Company to be despatched to shareholders together with this Annual Report.

Roles and Responsibilities

The Company is headed by an effective Board which assumes responsibility for its leadership and control and is collectively responsible for promoting its success by directing and supervising its affairs. The Directors take decisions objectively in the best interests of the Group.

The Board is mainly responsible for setting and approving the Company's strategic direction and planning all important matters including the preparation of interim and annual results, annual financial budget, and business and operation plans.

The Company has a formal schedule of matters specifically reserved for Board approval. Matters explicitly reserved for the Board's decision include, amongst other things, (i) the size, composition, structure and role of the Board and the Board committees, (ii) the suitability of any individual as a member of the Board or the Board committees, (iii) the appointment and removal of the CEO, (iv) monitoring the performance of the CEO to ensure the Group is in alignment with its strategic direction, and (v) the performance of corporate governance duties set out in Code Provision D.3.1. Responsibility for delivering the Company's objectives and running the business on a day-to-day basis is delegated to the management.

Non-Executive Directors and Independent Non-Executive Directors provide the Group with diversified expertise and experience. Their views and participation in Board and Board committees meetings bring independent judgement and advice on issues relating to the Group's strategies, performance and management process, to ensure that the interests of all shareholders are taken into account and safeguarded.

The Board periodically reviews the Company's practices on corporate governance, compliance with the CG Code, training and continuous professional development of Directors and Senior Management, and the disclosures in this report.

Independence of Non-Executive Directors

The Company has received from each of the three Independent Non-Executive Directors an annual confirmation of his independence and considers that each of the Independent Non-Executive Directors is independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules.

Induction and Development

Every newly appointed Director of the Company would receive a comprehensive and tailored induction on appointment. Subsequently he would receive any briefing necessary to ensure that he has a proper understanding of the Group's operations and business and is fully aware of his responsibilities under statutes, the Listing Rules and other applicable legal and regulatory requirements.

The Group continuously updates Directors on the latest developments regarding the Listing Rules and other applicable legal and regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

During the year ended 31 December 2017, the Directors participated in the following continuous professional development:

Directors	Types of training
Executive Director:	
Mr. WANG Kin Chung, Peter	A, C
Non-Executive Directors:	
Ms. WANG KOO Yik Chun	A, C
Ms. MAK WANG Wing Yee, Winnie	A, C
Dr. WANG Shui Chung, Patrick	A, B, C
Independent Non-Executive Directors:	
Mr. LO Kai Yiu, Anthony	A, C
Mr. James Christopher KRALIK	A, C
Mr. Peter TAN	A, C

A: attending seminars, conferences and/or briefings on directors' duties and corporate governance, regulatory updates, and financial and economic development
B: giving speech at seminars and/or conferences
C: reading regulatory updates, newspapers, journals, and other business, financial and economic publications

Board Process

The Board requires Directors to devote sufficient time and attention to their duties and the Company's affairs. The Directors are also required to disclose to the Company annually the number and nature of offices held in public companies or organisations and other significant commitments with an indication of the time involved.

The Board meets regularly and Board meetings are held at least four times a year at quarterly intervals. Dates of regular Board meetings are scheduled in the prior year to provide sufficient notice to give all Directors an opportunity to attend. In addition, notice of at least 14 days is given for each regular Board meeting and the Directors are given opportunity to include matters for discussion in the agenda.

For regular Board meetings, and as far as practicable in all other cases, an agenda and accompanying Board papers are sent, in full, to all Directors at least three days before the meeting date.

Minutes of the meetings of the Board and Board committees are kept by the Company Secretary. Draft and final versions of minutes are sent to all Directors for their comment and records respectively, within a reasonable time after the meeting is held.

The Directors, upon reasonable request, may seek independent professional advice at the Company's expense, to assist the performance of their duties.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter would be dealt with by a physical Board meeting rather than a written resolution.

The Company has arranged directors' and officers' liability insurance in respect of any legal action against Directors.

Directors' Attendance Records

During the year ended 31 December 2017, four regular Board meetings have been held. The attendance of each Director at these Board meetings, Board committee meetings and the 2017 annual general meeting ("AGM") is set out below:

	Number of meetings attended/held			
	Board	Audit Committee	Remuneration Committee	2017 AGM
Executive Director:				
Mr. WANG Kin Chung, Peter	4/4	N/A	N/A	1/1
Non-Executive Directors:				
Ms. WANG KOO Yik Chun	1/4	N/A	N/A	1/1
Ms. MAK WANG Wing Yee, Winnie	3/4	2/3	1/1	1/1
Dr. WANG Shui Chung, Patrick	3/4	N/A	N/A	1/1
Independent Non-Executive Directors:				
Mr. LO Kai Yiu, Anthony	4/4	3/3	1/1	1/1
Mr. James Christopher KRALIK	4/4	3/3	1/1	0/1
Mr. Peter TAN	2/4	N/A	1/1	0/1

N/A: Not applicable

Delegation by the Board

Board Committees

Board committees would be formed with specific written terms of reference which deal clearly with their authority and duties.

The Board has established the Audit Committee and the Remuneration Committee with terms of reference including the specific duties set out in the Code Provisions with appropriate modifications where necessary.

Apart from the Audit Committee and the Remuneration Committee, the Board has also established a Share Option Committee which comprises an Executive Director and a Non-Executive Director to deal with the administration of the share option schemes of the Company.

The terms of reference of the Audit Committee and the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

Audit Committee

The Audit Committee is responsible for reviewing the Company's financial information and overseeing the Company's financial reporting system, risk management and internal control systems.

A majority of the members of the Audit Committee are Independent Non-Executive Directors. During the year ended 31 December 2017 and up to the date of this report, the members of the Audit Committee are:

Non-Executive Director:
Ms. MAK WANG Wing Yee, Winnie

Independent Non-Executive Directors:
Mr. LO Kai Yiu, Anthony
Mr. James Christopher KRALIK

Mr. LO Kai Yiu, Anthony is the Chairman of the Audit Committee and has the professional qualifications and accounting and related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

None of the three Audit Committee members is a former partner of the Company's external auditor.

The Board agrees with the Audit Committee's proposal for the re-appointment of KPMG as the Company's external auditor for 2018. The recommendation will be presented for the approval of shareholders at the 2018 AGM.

The Audit Committee is provided with sufficient resources to perform its duties and has access to professional advice if necessary.

Upon recommendation of the Audit Committee, the Board has adopted a whistleblowing policy which provides a channel to employees of the Group to raise concerns, in confidence, about misconduct, malpractice or irregularities in any matters related to the Group. The policy is published on the website of the Company.

The attendance of each member at the Audit Committee meetings held during the year ended 31 December 2017 is set out in the "Directors' Attendance Records" section of this annual report.

During the year ended 31 December 2017, the Audit Committee held three meetings and the work performed is set out below:

(i) reviewed the 2017 annual budget and 2017 internal audit plan;

(ii) reviewed the draft annual report and audited financial statements of the Group for the year ended 31 December 2016 and recommended the same to the Board for approval;

(iii) made recommendation to the Board on the appointment of the external auditor at the 2017 AGM and considered the proposed external auditor's remuneration;

(iv) reviewed the draft interim report and unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2017 and recommended the same to the Board for approval;

(v) reviewed the audit service plan from the external auditor, reviewed their independence and discussed with them the nature and scope of audit for the year ended 31 December 2017 and their reporting obligations, considered and approved their terms of engagement;

(vi) reviewed the report on the annual review of internal control system and risk assessment, and periodic internal audit progress reports;

(vii) reviewed the risk management framework, risk management policy, and risk management update;

(viii) monitored the whistleblowing policy program throughout the year;

(ix) reviewed the adequacy of resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting function, and their training programmes and budget; and

(x) reviewed compliance and regulatory issues.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board regarding the Company's remuneration policy. It has the delegated responsibility for the formulation, determination and review of the remuneration packages of Directors and Senior Management. No Director is involved in deciding his/her own remuneration.

A majority of the members of the Remuneration Committee are Independent Non-Executive Directors. During the year ended 31 December 2017 and up to the date of this report, the members of the Remuneration Committee are:

Non-Executive Director:
Ms. MAK WANG Wing Yee, Winnie

Independent Non-Executive Directors:
Mr. LO Kai Yiu, Anthony
Mr. James Christopher KRALIK
Mr. Peter TAN

Mr. James Christopher KRALIK is the Chairman of the Remuneration Committee.

The Remuneration Committee is provided with sufficient resources to perform its duties and has access to professional advice if necessary.

The attendance of each member at the Remuneration Committee meeting held during the year ended 31 December 2017 is set out in the "Directors' Attendance Records" section of this annual report.

During the year ended 31 December 2017, the Remuneration Committee held one meeting and the work performed is set out below:

(i) reviewed and approved the remuneration packages of the Directors and Senior Management; and

(ii) reviewed and approved the recommendation to the Board on the grant of share options.

Management Functions

The day-to-day management of business of the Group is delegated to management. The Board has given clear directions to management on the matters that must be approved by it before decisions are made on the Company's behalf.

The Board has adopted the terms of reference of the Board and management to formalise the functions reserved to the Board and those delegated to management. The terms of reference are subject to periodic review to ensure that they remain appropriate to the Group's needs.

Management of the Group is aware that it has an obligation to supply the Board and its committees with adequate, complete and reliable information, in a timely manner, to enable them to make informed decisions. The Board and individual Director have separate and independent access to the Company's senior management. All Directors are entitled to have access to Board papers and related materials. Queries raised by Directors would receive a prompt and full response.

Remuneration of Directors and Senior Management

The emoluments payable to the Directors are determined at arm's length on the basis of the responsibilities involved, time devoted, current financial position of the Company and the prevailing market conditions. At the 2017 AGM, the shareholders approved the authorisation of the Directors to fix their remuneration.

The policy adopted for the remuneration of the Non-Executive Directors since 1 January 2015 is set out below:

(i) Annual director's fee for each Non-Executive Director HK$49,500

(ii) Meeting attendance fees for each Non-Executive Director

	Column A (As Chairman/ Chairlady) *(Note 1)*	**Column B (As participating member)** *(Note 2)*
Fee for attending each Board meeting	HK$20,650	HK$20,650
Fee for attending each Audit Committee meeting	HK$41,300	HK$20,650
Fee for attending each Remuneration Committee meeting	HK$12,400	HK$12,400
Fee for attending each Board committee meeting	HK$33,000	HK$16,500
Fee for attending each independent Board committee meeting	HK$33,000	HK$16,500
Fee for attending each Share Option Committee meeting	HK$8,250	HK$8,250

Notes:

1. If a Director acts as the Chairman/Chairlady at the relevant meeting, he/she will be entitled to the fee set out under column A.

2. If a Director participates in the relevant meeting as a participating member (but he/she does not act as the Chairman/Chairlady), he/she will be entitled to the fee set out in column B.

The remunerations of members of Senior Management for the year ended 31 December 2017 are within the following bands:

	Number of individuals
Up to HK$3,000,000	**6**
HK$3,000,001 to HK$6,000,000	**2**
	8

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2017.

In addition, the Board has formally adopted the Model Code as guidelines for relevant employees in respect of their dealings in the securities of the Company.

Accountability and Audit

Financial Reporting

It is the responsibility of the Board to present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects. Management provides the Board with monthly updates on the Group's performance and financial highlights.

The Directors acknowledge that they are responsible for preparing the accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the results and cash flow for the year then ended. In preparing the accounts for the year ended 31 December 2017, the Directors have:

(i) selected appropriate accounting policies and applied them consistently;

(ii) made judgements and estimates that are prudent and reasonable; and

(iii) prepared the accounts on a going concern basis.

A statement by the Auditor about their reporting responsibilities is included in the Independent Auditor's Report on pages 46 and 47.

Risk Management and Internal Controls

The risk management and internal controls system has been designed to protect the Group's assets against unauthorised use or disposition, maintain proper accounting records and reliable financial information, facilitate the effectiveness and efficiency of operations and ensure compliance with applicable laws, rules and regulations.

The Board, recognising the importance of sound and effective risk management and internal controls system, has developed an Enterprise Risk Management framework ("ERM framework") to help the Group achieve its business objectives.

Under the ERM framework, a set of policy and procedures have been established for the purposes of identifying the enterprise risks faced by the Group in the existing operating environment as well as evaluating the impact of such risks identified; developing the necessary measures for managing these risks; and monitoring and reviewing the effectiveness and adequacy of such measures. Assisted by the internal audit department, the Board conducts annual review of the enterprise risks with the aim of ensuring emerging risks are timely identified and adequate risk mitigation measures are properly implemented by management.

The ERM framework serves to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, through the Audit Committee, has reviewed the adequacy and effectiveness of the risk management and internal control system for the year ended 31 December 2017. It is not aware of any major issue of concern and considers the risk management and internal control system adequate and effective. Appropriate measures have been taken to address areas identified for improvement.

Both the Board and the Audit Committee have reviewed and are satisfied with the adequacy of resources, including staff qualifications and experience, training programmes and budget, of the Group's accounting, internal audit and financial reporting functions.

Inside Information Policy

The Group has adopted a policy setting out the practices and procedures for ensuring inside information of the Group is promptly identified, assessed and disseminated to the public in an equal and timely manner in accordance with applicable laws and regulations. Proper safeguards are in place to prevent the breach of disclosure requirements and access to inside information is restricted to a limited number of employees on a need-to-know basis. Directors, officers and all relevant employees of the Group who have possessed inside information are required to preserve confidentially of inside information until it is publicly disclosed.

Internal Audit Function

The Group's enterprise risk management and internal controls system is evaluated by the internal audit department independently on an ongoing basis. Internal audit department adopts a risk-based approach in developing the annual audit plan which is reviewed and approved by the Audit Committee. Audit activities covering business activities with material risks across the Group on a rotational basis are designed and prioritised based on the results of risk assessment.

During the year ended 31 December 2017, the tasks performed by internal audit department are as follows:

(i) Conduct independent regular audits of financial, operational and compliance controls and risk management functions of the Group in accordance with internal audit plan;

(ii) Conduct special reviews and investigations of areas of concern identified by the Board and the management; and

(iii) Oversee the whistle-blowing mechanism.

To preserve the independence of the internal audit department, the Head of Internal Audit has unrestricted direct access to the Audit Committee and reports directly to the Audit Committee. In every Audit Committee meeting, the Head of Internal Audit reports to the Audit Committee on significant findings on risk management and internal controls, as well as the implementation status of corrective actions committed by management.

Auditor's Remuneration

In 2017, remunerations paid to KPMG, the Company's external auditor, and its associates in respect of audit and non-audit services provided to the Group are set out below:

	2017 HK$'000
Annual audit fees	**2,290**
Tax services fees	**116**
Other services fees	**869**
Total	**3,275**

Company Secretary

The Company Secretary supports the Board by ensuring good information flow within the Board. All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures and all applicable rules and regulations are followed.

The Company Secretary is an employee of the Company and has satisfactorily fulfilled the professional training requirement.

Shareholders Relation

Shareholders Engagement and Communication

The Board endeavors to maintain an on-going dialogue with shareholders and in particular, uses annual general meetings or other general meetings to communicate with them and encourages their participation.

At the 2017 AGM:

(i) a separate resolution was proposed and dealt with by poll vote in respect of each separate issue, including the re-election of Directors;

(ii) the Chairmen of the Board and the Audit Committee, members of the Remuneration Committee, and the external auditor of the Company attended to answer questions of the shareholders; and

(iii) computershare Hong Kong Investor Services Limited, the Company's branch registrar and transfer office (the "Hong Kong Branch Registrar"), was engaged as scrutineer for the vote-taking.

At the 2018 AGM, the Chairman of the meeting will demand a poll on all the resolutions in accordance with the requirements of the Listing Rules. The poll results will be posted on the websites of the Stock Exchange and the Company on the same day of the 2018 AGM.

The Board has adopted a shareholders communication policy which will be subject to periodic review to ensure its effectiveness. The policy is published on the website of the Company.

Shareholders' Rights and Investor Relations

Shareholders of the Company may exercise the following rights in accordance with the procedures set out below. Such procedures are also published on the website of the Company.

1. Convening a special general meeting ("SGM")

Shareholders holding not less than one-tenth of the paid-up capital of the Company can deposit a written request to convene a SGM at the registered office of the Company or the Hong Kong Branch Registrar or the head office of the Company, for the attention of the Company Secretary.

The written request must state the purposes of the meeting, signed by the shareholders concerned and may consist of several documents in like form each signed by one or more of those shareholders.

The request will be verified with the Hong Kong Branch Registrar and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to convene a SGM by serving sufficient notice in accordance with the statutory requirements to all the registered shareholders. On the contrary, if the request has been verified as not in order, the shareholders concerned will be advised of this outcome and accordingly, a SGM will not be convened as requested.

If the Directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene a SGM, the shareholders concerned, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a SGM, but the SGM so convened shall not be held after the expiration of three months from the said date.

The notice period to be given to all the registered shareholders for consideration of the proposal raised by the shareholders concerned at a SGM varies according to the nature of the proposal, as follows:

(i) 14 days' notice* or 10 clear business days' notice in writing, whichever is the longer, if the proposal constitutes an ordinary resolution of the Company; or

(ii) 21 days' notice* or 10 clear business days' notice in writing, whichever is the longer, if the proposal constitutes a special resolution of the Company.

* the period of notice shall be exclusive of the day on which it is served or deemed to be served and inclusive of the day on which the meeting is to be held.

2. Putting forward proposals at general meetings

The number of shareholders required to move a resolution at general meetings by written request shall be:

(i) either any shareholders representing not less than one-twentieth of the total voting rights of all the shareholders having the right to vote at the general meeting; or

(ii) not less than 100 shareholders.

The written request must state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with at that meeting and signed by all the shareholders concerned and may consist of two or more copies which between them contain the signatures of all the shareholders concerned.

The written request must be deposited at the registered office of the Company or the Hong Kong Branch Registrar or the head office of the Company, for the attention of the Company Secretary not less than six weeks before the general meeting in case of a requisition requiring notice of a resolution, and not less than one week before the general meeting in the case of any other requisition.

The request will be verified with the Hong Kong Branch Registrar and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting provided that the shareholders concerned have deposited a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned in accordance with the statutory requirements to all the registered shareholders. On the contrary, if the request has been verified as not in order or the shareholders concerned have failed to deposit reasonably sufficient money to meet the Company's expenses for the said purposes, the shareholders concerned will be advised of this outcome and accordingly, the proposed resolution or business will not be included in the agenda for the general meeting.

In accordance with Bye-Law 90, a shareholder may propose a person for election as a Director by lodging at the registered office of the Company or the Hong Kong Branch Registrar or the head office of the Company, a notice in writing signed by such shareholder (other than the person to be proposed), and also a notice in writing signed by the person to be proposed of his willingness to be elected. Such notice(s) must state the full name of the person proposed for election as a Director and include such person's biographical details as required by Rule 13.51(2) of the Listing Rules. The period for lodgement of such notices shall commence on (and include) the day after the date of despatch of the notice convening the general meeting appointed to consider such proposal and end on (and exclude) the date that is seven days before the date of such general meeting. Upon receipt of such notice(s), the Board will consider the suitability of the said person as a Director and will make recommendation to the shareholders for their consideration.

3. Sending enquiries to the Board

The Company values communication with shareholders and investors. Enquiries and suggestions to the Board are welcomed by addressing them to the Company Secretary:

(i) by mail to the Company's head office at 5th Floor, 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong;

(ii) by telephone at (852) 2279-3888;

(iii) by fax at (852) 2423-5576; or

(iv) by e-mail to cosec@tristateww.com.

2018 Annual General Meeting

The 2018 AGM will be held at Room 5A, 5th Floor, 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong on Monday, 25 June 2018 at 10:00 a.m. The notice of the 2018 AGM will be sent to all shareholders separately. The Chairmen of the Board, the Audit Committee and the Remuneration Committee or their delegates, as well as the external auditor of the Company will attend the 2018 AGM to answer questions from the shareholders.

Important Dates to Shareholders

The important dates to shareholders in year 2018 are as follows:

Book close date for determining eligibility to attend and vote at the 2018 AGM:	Tuesday, 19 June 2018 to Monday, 25 June 2018, both days inclusive
2018 AGM:	Monday, 25 June 2018

Environmental, Social and Governance Report

1. Message from Chairman

The Group incorporates the core value of its Environmental, Social and Governance ("ESG") initiatives into our business philosophy over the years. We are committed to pursuing sustainable development in environmental protection and social responsibility whilst delivering quality products.

We aspire to become the leading responsible garment manufacturer and branded business operator. Our goal is to strive for green production along the value chain, by achieving more than what has been required by the environmental regulations and law, while facilitate the creation of a sustainable apparel industry that is good for people, communities and all our stakeholders.

Through the execution and expansion of our ESG initiatives, the Group continues to build up its business capabilities for the sustainable growth in the years to come.

2. About this Report

2.1 Overview

This is the ESG report of Tristate Holdings Limited (the "Company") and its subsidiaries (together, "Tristate" or the "Group") for the year ended 31 December 2017.

2.2 About Our Business

The Group was founded in 1937 and has been listed on the Main Board of the Stock Exchange of Hong Kong Limited ("HKEx") since 1988. Tristate has evolved from its historical origins as a prestigious Shanghai and Hong Kong tailor, and has developed a unique industrial garment manufacturing system globally recognised throughout the premium fashion sector for its unrivaled ability to integrate cutting-edge technologies into the production of innovative fashions.

The principal business activities of the Group are brands business and garment manufacturing with customers globally, with major markets spanning across Europe, the US and Asia.

2.3 Scope of this Report

This report covers the period from 1 January 2017 to 31 December 2017, the same as the Group's annual report. The main scope of this report covers the Group's manufacturing operations, accounting for the majority of the Group's total revenue in garment manufacturing. As committed in last year's report, we have expanded our reporting coverage by including the two production factories in Thailand, as well as the other three factories based in Hefei and Panyu, China reported last year.

Responding to the upgrade in HKEx's requirement on environmental KPIs from "Recommended disclosure" to "Comply or Explain" starting from the year 2017, we will also report on our material environmental KPIs in addition to general disclosure on policies.

Factory Details:

Location of Factory	Name of the Entities
Hefei, China	Hefei Tristate Garment Manufacturing Company Limited
Panyu, China (Factory No. 1)	All Asia Industries Co., Ltd.
Panyu, China (Factory No. 2)	Guangzhou Tristate Industrial Co., Ltd.
Thailand (Factory No. 1)	Hua Thai Manufacturing Public Company Limited
Thailand (Factory No. 2)	Hua Thai Manufacturing Public Company Limited

2.4 Reporting Reference

This ESG report has been prepared in accordance with the HKEx's Environmental, Social and Governance Reporting Guide ("ESG Guide").

An "HKEx ESG Content Index" that maps the information contained in the report to the ESG Guide is provided in Appendix I and a summary list of "Material Environmental KPIs" is provided in Appendix II.

3. Our Value and Mission

3.1 Our Vision

An ethical and sustainable business practice is at the core of Tristate's operating philosophy. Tristate is committed to creating a sustainable and green environment through the continuous reduction of carbon emission and waste as well as the conservation of energy. It is also the industry's goal to allow people who enjoy fashion to dress sustainably. However, the mission of being able to continue to offer sustainable fashion to present and future generations has become increasingly challenging in a world of growing populations and finite resources.

Acting as the third-party manufacturer for a number of internationally renowned apparel brands, we are destined to contribute to sustainability development along the value chain of our industry. Although our influence may not be as far-reaching compared with our clients, we as a listed company, still strongly believe that corporations shoulder a big responsibility to act in a manner that helps to drive change, making their business economically, socially and environmentally sustainable.

Our vision, on top of our commitment as a corporate citizen, is to strive for the creation of a truly sustainable apparel industry that is good for people, communities and the planet. We are also strong believers in corporate citizenship. In running our business, we adhere to ethical behaviours by creating a balance between the needs of the shareholders and the community in unison with the environment in the surrounding area.

Corporate Citizenship

Businesses committed to corporate citizenship demonstrate a strong mindset and firm action in meeting their legal, ethical and economic responsibilities, as established by stakeholders. The ultimate goal is to produce higher standards of living and quality of life for the surrounding communities and is still beneficial to all stakeholders.

During the year, we developed a clear vision and mission for the Group's sustainability development. We are more active in developing policies and activities that exceed basic compliance regarding relevant laws, and are more active in promoting the involvement of our employees and managers.

To advance progressively going forward, we are committed to continuously extending the scope of the engagement with our stakeholders to better understand their needs and expectations. To improve transparency regarding progress of our community involvement, our achievements are being made available via public reporting. Ultimately, we are encouraging senior management to integrate corporate citizenship considerations into their respective business strategies and the Group's daily operation.

3.2 Our Mission

Through extensive engagements with our stakeholders and reflecting on our impact along the value chain, we have summarised three sustainability missions to work with our stakeholders that would progressively drive us closer to fulfilling our vision.

<u>Facilitating Green Production Along the Value Chain</u>

Along the value chain, we understand that, inevitably, resources are used and emissions are generated. Our job is to reduce our production facilities' share of adverse impact on the environment.

Most of our clients are international apparel brands, and stakeholders around the globe have high expectations regarding their sustainability performance, especially in terms of their supply chain management. We believe that by complying with relevant environmental standards required by the local rules and regulations, for example, emissions control and the efficiency in use of resources, we partner with these large-scale international apparel brand owners in achieving their sustainability goals and targets.

<u>Promoting Equality and Fairness</u>

We understand that being a garment manufacturer with production facilities in different parts of the world, and with more than 9,500 employees in total, the impact we have on the community can never be underestimated, particularly in light of our commitment to corporate citizenry and responsible business.

In promoting equality and fairness, we strive to provide stable employment with fair compensation that could help lift people from potential poverty, and improve living/working conditions in the countries where we have production facilities, for example, to eradicate the use of child and forced labour.

<u>Promising Quality and Safe Products</u>

Being a trusted third-party manufacturer for some of the world's most famous and high-end fashion brands, we take pride in the products we make, and are committed to providing end users safe apparels of the highest quality.

In the apparel industry, customers will typically buy new clothes they like, wear them, and then ultimately discard them. By improving the quality and craftsmanship of the products we produce, Tristate seeks to extend garment life span and thus, reduce waste at the end of the value chain.

Vision

Strive for the creation of a truly sustainable apparel industry	Being a corporate citizen and carry out our business responsibly

Mission

Facilitate green production along the value chain	Promote equality and fairness	Promise quality and safe products

Stakeholders

Employees	Partners (Investors, Creditors, Suppliers, Distributors and Regulators etc.)	Customers

3.3 Our ESG Structure

We established an ESG Steering Committee in 2016 to review and monitor the Group's ESG policies and practices to ensure compliance with the relevant legal and regulatory requirements, monitor and respond to emerging ESG issues and, make recommendations to the Board where appropriate to improve the Group's ESG performance.

A systematic internal governance structure is in place, led by the ESG Steering Committee to effectively execute our ESG strategies and approaches across the Group. The structure comprises the Tristate ESG Steering Committee, Group Sustainability Manager, General Managers of the Business Units, and the corresponding operational staff.

Our ESG structure and the corresponding responsibilities are listed below:

Tristate ESG Steering Committee

Group Chairman (Committee Chair)
Group Chief Financial Officer
Head of Human Resources
Company Secretary
Internal Audit Director

Responsibilities:
- Formulate overall ESG strategies
- Steer business development in accordance with the Group's ESG goals and commitment

Business Units

Group Sustainability Manager

Responsibilities:
- Keep track and monitor Group's performance
- Align Group's ESG policies and strategies with corresponding operational approaches

Business Units

General Managers of Business Units

Responsibilities:
- Identify operational-specific ESG risks and opportunities
- Allocate resources from operational staff to support the ESG improvement activities

4. Stakeholder Engagement and Materiality Assessment

4.1 Stakeholder Engagement

Responding to the commitment made in the 2016 report, we have expanded our scope of stakeholder engagement by including members of senior management teams from our Thailand factories.

Plans to expand the extent of our stakeholder engagement do not stop here; we plan to continue reaching out to other stakeholder groups progressively in particular external stakeholders, to establish a more comprehensive feedback for continual improvement of our ESG performance.

4.2 Materiality Assessment

Views and opinions collected during the stakeholder engagement process have been assessed and some of the most material ESG issues and their relevances to the business operations are listed below in descending order categorised by environmental and social areas.

Areas	Material Issues	Relevance to the Business
Environmental	Use of Electricity	Electricity use is essential to our business operations, from factories to offices to dormitories, from machine running to air-conditioning to lighting etc.
	Use of Water	Given the nature of our manufacturing process, laundry plant accounts for the main source of water consumption; other uses include domestic use from our production facilities and the dormitories.
	Hazardous Waste	Given the nature of our manufacturing business, we do not generate significant amount of hazardous waste. Still, a limited amount of cleaning reagents are needed for our production.
Social	Labour Standards	Forced labour and child labour are regarded as key issues and they are completely prohibited by law and in our Group's operation.
	Health and Safety	Occupational safety is another key issue to the manufacturing business. We are committed to providing our employees with a healthy and safe working environment.
	Anti-corruption	Integrity is a core value of the Group. We believe that this is the cornerstone of business development.
	Employee Benefits	A competitive compensation package is necessary to attract and retain talent. Our people is the foundation of our success.

As our first attempt in environmental data disclosure as per HKEx's requirements, we would start by disclosing data of the most material environmental issues for the Group, being Use of Electricity, Use of Water and Disposal of Hazardous Waste. We have planned to progressively expand our scope of disclosure to further improve the transparency of our ESG efforts.

5. Facilitating Green Production along the Value Chain

5.1 Our Commitment

In line with the result of our stakeholder engagement, electricity use, water use, and hazardous waste disposal present the most material environmental aspects to the Group.

To contribute our share of responsibility along the value chain, we ensure that we comply with rules and regulations regarding Resources Efficiency and Emission Controls as required. Meanwhile, we endeavour to look for possible improvement initiatives that would exceed the requirements, where practical and economically viable.

Starting also from the year 2017, we report on material environmental KPIs in line with the latest HKEx's requirements. We aim to make every practicable effort to comply with all applicable environmental laws and regulations in the places where we operate.

5.2 Resources Efficiency

To do better than simply complying with clients' requirements, we have implemented various measures and initiatives to improve the efficiency in how we consume energy, water and other materials along the production chain. Please see details in the following sections.

Reflective of our ongoing efforts and determination to achieve eco-friendly outcomes, we successfully applied for and obtained a LEEDs Silver award for our Hefei factory in 2009, the premise of which is now classified as a 'green' building.

5.2.1 Use of Energy

Electricity is the Group's main source of energy consumption, used in factory operations, dormitories and offices. Other forms of energy use in our factories include natural gas for boilers and diesel for generators etc.

Use of Electricity in 2017

Production Facility	Total Usage (in kWh)
Hefei China	3,231,900
Panyu China (Factory No. 1)	3,711,761
Panyu China (Factory No. 2)	1,139,960
Thailand (Factory No. 1)	2,894,000
Thailand (Factory No. 2)	1,163,352
Annual Total	**12,140,973**

Among our factories, we continue to improve the efficiency of energy consumption via three main considerations: (a) proper maintenance/upgrade of equipment, (b) environmental data management system, and (c) employee awareness enhancement.

(a) Proper Maintenance and Upgrade of Equipment

Improvements in 2017

- Upgrading to VSD chillers reduced annual energy used, while maintaining reliable operation;
- Replacement of the central 6.6-ton oil-fueled boiler by a 2.2-ton LPG-fueled boiler improved fuel efficiency and reduce emissions generated;
- Reduction of energy loss by improving the steam pipe's insulation and air-tightness of indoor areas;
- Setting up a designated team which is responsible for maintaining the proper condition of our emission-generating units (boilers, chimneys etc.). The team ensures that we could pass all the third-party annual inspections. Only through full compliance with the regulations can we be given the necessary licences for continued operation;
- Gradual replacement of more energy efficient lighting fixtures (e.g. LED light tubes). A safe and suitable working environment (in terms of lighting lux level) is maintained, while concurrently improving energy efficiency; and
- Implementation of designated controls for individual zones to enable intelligent building workplaces (i.e. automatic switch-off of lights and air-conditioners when the area is vacant).

Highlighted Initiatives Carried Out in Previous Years

- Installed water curtains at our factories in Hefei and Panyu to improve indoor temperature control. By replacing the traditional chiller plant with the water curtain, we reduced the energy needed for maintaining a suitable working environment at the factory;
- Installed solar lighting tubes in the factory ceiling in Hefei. This equipment harvests natural sunlight via reflective surfaces, the light is then transported via flexible tubing to brighten indoor workstations; and
- Made good use of the roofs of several factory buildings by covering them partly or fully with vegetation. The green roofs significantly reduce the island effect in the surrounding area, reduce heat gain via the roof, lower the indoor temperature during summer by reflecting and digesting heat from the roof surfaces, and provide additional insulation in winter conditions. All this saves energy, in addition to cutting air conditioner costs.

(b) Environmental Data Management System

We have developed and implemented data management systems to collect material environmental data. The system stores and organises data that allows us to analyse the environmental performances of our factories in different locations and countries.

This facilitates more effective decision-making regarding potential resource-saving projects, reliable benchmarking of our performance in line with local government requirements to ensure compliance, and meeting clients' ever-increasing expectations on our resources consumption and emission control.

(c) Awareness Enhancement of Employees

Our employees are provided with training throughout the year to raise their awareness regarding energy efficiency. We organised workshops and seminars for factories' management to reflect on the existing work done and way forward to further improve environmental performance of the production facilities.

Posters and internal communications are used to remind our employees of the Group's latest environmental policies and measures.

5.2.2 Use of Water

Given the nature of our key manufacturing activities which exclude fabric dyeing and bleaching, the laundry of finished garments and boilers accounts for the majority of water usage in the production process.

Apart from the production process, other water use in the factories is for domestic consumption in the dormitories of our production facilities. Besides encouraging our employees towards water conservation, we made several water-saving initiatives during the year, namely:

- replaced traditional taps with newer models with low flow regulators;
- reduced flushed water volume by retrofitting existing toilets with dual-flush capability and sensor controls;
- installed water-softening filters for boilers to improve flow rate and efficiency; and
- reduced factories' water pressure, saving water while also reducing leakage risk and the potential repair costs.

Water meters are available for municipal water supply in the China and Thailand facilities and thus water consumption data is being monitored and maintained.

Use of Water in 2017

Production Facility	Total Usage (in m^3)
Hefei China	168,422
Panyu China (Factory No. 1)	60,017
Panyu China (Factory No. 2)	40,555
Thailand (Factory No. 1)	38,296
Thailand (Factory No. 2)	12,080
Annual Total	**319,370**

5.2.3 Use of Packaging Material

Packaging material is typically subject to client needs and specifications, leaving us with very limited control over it. While we have minimal control over the types of materials used for packaging, we still try to manage the issue by preventing any over-order of packaging materials.

5.3 Emissions Control

Given the nature of our business, we do not produce significant air emissions, hazardous waste or wastewater discharge. We have developed systems that strictly follow client's MRSL (Manufacturing Restricted Substances List), ensuring that chemicals on the list are not used during our production processes. Further, we ensure compliance with the relevant regulatory requirements and minimise our emissions where reasonably practicable.

5.3.1 Greenhouse Gas Emission

While the Group has not specifically conducted a greenhouse gas (GHG) assessment historically, we understand that energy use at our operations represents a significant source of GHG. Over the years, various initiatives and installations have been made to improve our energy efficiency, enabling reductions in our overall carbon emissions as outlined under the paragraph "Use of Energy".

5.3.2 Air Emissions

Significant air emissions are not endemic to the garment manufacturing process given the nature of the tasks involved. Major air emission sources are from the use of diesel boilers and back-up generators in the production facilities. During the year, we have progressively been replacing the diesel-fueled boilers with natural gas or LPG-fueled boilers, to reduce air emissions and unpleasant odors.

5.3.3 Wastewater Discharge

Our production operation only generates insignificant amount of wastewater, mainly from the laundry of finished products and the boilers. Meanwhile, the facilities' domestic wastewater is properly managed and monitored.

Wastewater produced from our facilities in China is diverted to an in-house waste water treatment plant for a pre-treatment before discharge. Sedimentation and biological treatment processes are adopted to ensure the effluent complies with relevant discharge standards.

A dedicated team has been set up responsible for operating and maintaining the waste water treatment plant. An online and real-time monitoring system has been installed to monitor the effluent quality. To the best of our knowledge, no material violation of discharge standards was recorded during the year.

5.3.4 Waste Management

General Waste

The Group continuously optimises its production plans and procedures to better utilise the raw garment materials and thus reduce generation of waste fabrics. Rags are collected by recyclers periodically. We seek to minimise the disposal of rags as waste.

The '3R' principles – reduce, reuse and recycle – have been widely adopted across the whole Group, and other general waste from our operations is being properly disposed of in line with local requirements and general international standards.

Hazardous Waste

Our production facilities are principally engaged in the cutting, sewing, finishing and packaging of garments. The majority of raw materials are purchased from qualified fabric suppliers designated by clients and we do not engage in dyeing or bleaching business. Consequently, the Group does not generate significant hazardous waste in the manufacturing process.

The common hazardous waste we produce, though in limited amount, constitutes old T8 light tubes, empty detergent bottles, and containers of cleaning reagents. During the year, the relevant disposal amounts have been well documented. To reduce the generation of waste T8 light tubes, we have been progressively replacing the lighting system in our factories with LED tubes, which are more durable and energy efficient. For the cleaning reagent, we would determine if any eco-friendly substitutes are available, where practical.

Regarding the limited hazardous waste generated, we have appointed qualified third-party companies for proper handling and disposal, so as to ensure that the process complies with the local laws and regulations on hazardous waste disposal.

Disposal of Hazardous Waste in 2017

Type of Hazardous Waste	Total Disposal Amount (in tonne)
Old T8 Light Tubes	0.3
Empty detergent bottles	0.69
Containers of cleaning reagents	1.14

5.4 The Environment and Natural Resources

The significant environmental issues faced in our business regarding emissions and the use of resources are already disclosed in the above sections.

5.5 Regulatory Compliance

During the reporting period, we were not aware of any material non-compliance with laws and regulations relating to environmental emissions.

6. Promoting Equality and Fairness

As a corporate citizen, we care about the welfare of the community and the people within. Our production facilities provide employment opportunities for the local areas, and help to boost the local economy and living standards. It is our goal to provide fair jobs for all employees. Fair jobs are crucial, as through proper training and development programmes, they provide opportunity for people to grow individually and professionally. Stable employment with fair compensation helps lift people's standard of living.

We wish to contribute to inspire, educate and bring the best of our labour policy to countries like China and Thailand, where we have operations. We strive to positively affect local labour practices by setting ourselves as role models. As such, we strictly prohibit unethical behaviours and any form of unlawful labour.

To the local community, we seek to give back where we take. Community engagement is encouraged to nurture a harmonious development in the local areas.

6.1 Employment and Labour Practices

At Tristate, it is our top priority to provide fair employment and a safe working environment to our workers. To grow our business continuously, we also believe that our employees are the foundation of our Company's success.

It is our goal to attract and retain the best talent. We implement a fair and transparent recruitment scheme that respects human rights and the dignity of all people. The Group provides comprehensive benefit packages along with learning and professional development opportunities to our employees.

6.1.1 Fair Employment

Recruitment

We support the diversification of labour and are committed to promoting equal opportunities for all employees regarding personnel matters including recruitment, training, promotion opportunities, benefits, transfer and dismissal etc. We ensure that employees are not discriminated or harassed against in terms of race, age, sex, gender, marital status, religion or belief.

Employment Benefits

We believe that sustainable growth in our business relies on the recruitment and retention of talent. To retain and motivate talent, the group offers competitive remuneration which is reviewed and adjusted regularly. Employees are entitled to all paid holidays or leaves under local laws, such as statutory holidays, annual leave, maternity leave, paternity leave and sick leave.

The Group respects employees' opinions. Open communication is encouraged to foster mutual trust and respect between management and employees. Employees may confer local issues with management via various channels or discuss with their immediate supervisor or senior management team if necessary.

To the best of the Group's knowledge, no material non-compliance of relevant laws and regulations of employment was noted during the year.

6.1.2 Health and Safety

The Group is committed to providing a safe and healthy working environment for our employees. We chiefly engage in the cutting, sewing, finishing and packaging of garments; the working environment mainly entails indoor production areas and offices. During the year, no incidence of serious injury or accident arose. Although the work nature is low-risk, the Group pledges full compliance in terms of all key occupational health and safety legislations. We have formulated safety guidelines which have well been communicated to all employees.

We ensure our employees have access to potable water and sanitary facilities. Our work areas have adequate lighting and ventilation, and are properly installed with smoke detectors, fire extinguishers, and first-aid boxes etc.

The Group regularly identifies and evaluates potential hazards in the production and living areas, clearing major risk sources and developing appropriate control methods. Measures to safeguard our employees from accidents and occupational diseases include:

- periodic machinery safety check;
- physical and chemical hazard identification and control;
- facility hygiene control;
- emergency preparedness for accidents and incidents;
- training to educate employees on occupational health and safety issues; and
- KPI tracking system for health and safety issues.

During the reporting period, we were not aware of any material non-compliance with laws and regulations regarding occupational health and safety.

6.2 Development and Training

The Group is a firm believer in nurturing employees' knowledge and skills via ongoing training. We are convinced that a team with strong industry knowledge and expertise will help enhance our competitiveness. We encourage employees to continue their studies and enroll in courses related to their job nature.

Throughout the year, we provided a series of orientation seminars and on-the-job training to promote personal growth of employees where necessary. Topics covered include industry knowledge, technology and product knowledge, industry quality standards and work safe standards.

6.3 Labour Standards

The Group respects each individual's basic human rights and strictly prohibits the employment of forced labour and child labour. We do not employ workers who are prohibited under local labour laws and regulations, such as child labour. Workers employed by us are all working at their own volition and they have freedom to express their own opinions at work. A formal complaints procedure is in place to facilitate any exchange of opinion between employees and management.

During the reporting period, we were not aware of any material non-compliance with laws and regulations regarding labour standards.

6.4 Anti-corruption

The Group is committed to achieving the highest standards of openness, probity and accountability. To ensure employees at all levels can conduct themselves with integrity, impartiality and honesty, we provide relevant training to our staff and organise workshops with clients regularly.

All our employees are made aware of our zero tolerance regarding bribery, extortion, fraud or money laundering whether in dealing with public officials or individuals in the private sector. Whistle-blowing policy has been set up to provide employees with reliable channels to report suspected fraud or misconduct by any staff member at any level of the Group. Unlawful or unethical conduct will be investigated promptly. All information received shall be kept confidential.

During the reporting period, we were not aware of any material non-compliance with laws and regulations regarding anti-corruption.

6.5 Community Investment

The Group cares for the community and encourages employees to actively participate in community development activities. We are committed to enhancing the development of the respective communities in which we operate, integrating with our core business, and promulgating the general support of our communities, not least via the roll-out of our garment manufacturing technology that provides local employment opportunities. We support initiatives that serve the needs and improve the quality of life of the socioeconomically disadvantaged with the aim to foster social harmony in the communities we serve.

7. Promising Quality and Safe Products

We understand that the quality and safety of our products represent the reputation of our Group; we take pride in our production and are committed to providing end users with safe and high quality garments.

We try to manage this by implementing strict supply chain management and product responsibility policies.

7.1 Supply Chain Management

7.1.1 Supplier Selection Policy

In the past few years, the green supply chain has gradually become a global trend of the apparel industry. In response to the ever-increasing expectations of our customers – most of whom are international premium apparel brands – we not only assess and evaluate our suppliers' capability, quality, compliance status, pricing and certifications. Extra attention is also paid to review suppliers' ESG performance, particularly regarding regulatory compliance on environment, employment and labour as well as health and safety.

Suppliers are encouraged to include green considerations in their production. Fair and equal employment practices are expected; we have zero tolerance regarding any form of discrimination, child labour, or forced labour.

Only those suppliers who comply with our requirements in product safety and quality, business reputation and other indicators mentioned above are eligible to be appointed by the Group.

7.1.2 Prohibiting Unethical Behaviour

The Group policy prohibits unethical behaviours that could interfere, or appear to interfere, with employees' abilities to make free and independent decisions regarding purchase and procurement. Any supplier violating this Supplier Code risks immediate loss of all existing and future business with our Group, while employees will be subject to appropriate disciplinary action including termination of employment.

7.2 Product Responsibility

7.2.1 Product Safety and Quality

The Group gives top priority to the product quality and safety offered to our customers. We continually strive to meet our customer's expectations on products and services with high satisfaction.

To ensure consistent and quality products from the outset, we source most of our raw material from suppliers designated by our clients. The Group, together with our clients and suppliers, has procedures in place safeguarding product quality and safety. Quality control systems have been set up and implemented in our factories to ensure clients' expectations are met. Responding to the increasing stringent environmental requirements on garment manufacturing, our clients, mostly international apparel brands, conduct factory visits and audits regularly to monitor our compliance with ethical and technical issues.

7.2.2 Customer Feedback Channels

We stay connected with customers via various channels such as telephone, email, questionnaire surveys and face-to-face meetings to obtain their feedback and suggestions. Opinions collected would be studied to identify areas of potential improvement.

During the reporting period, we were not aware of any material non-compliance with laws and regulations regarding product responsibility.

Appendix I: HKEx ESG Content Index

	Areas, Aspects and KPIs	Section	Remarks
A	***Environmental***		
A1	**Emissions**	5.3	–
A1.1	The types of emissions and respective emissions data.	5.3	Different types of emission produced by our operation can be found in section 5.3. During the year, we have collected data for disposal of hazardous waste, as it is one of our material environmental aspects.
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	5.3.1	It is considered that this aspect is comparatively immaterial amongst others. Its data disclosure will be reviewed next year.
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	5.3.4	We have disclosed the amount of hazardous waste disposed during the year by type.
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	5.3.4	It is considered that this aspect is comparatively immaterial amongst others. Its data disclosure will be reviewed in the future.
A1.5	Description of measures to mitigate emissions and results achieved.	5.3	Measures to reduce emissions of different types have been disclosed in section 5.3.
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	5.3.4	Waste management has been discussed in section 5.3.4
A2	**Use of Resources**	5.2	–
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	5.2.1	Different type of energy consumption has been discussed in section 5.2.1. During the year, we have collected data for use of electricity, as it is one of our material environmental aspects.
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	5.2.2	During the year, we have collected data for use of water, as it is one of our material environmental aspects.
A2.3	Description of energy use efficiency initiatives and results achieved.	5.2.1	We improve the energy efficiency mainly through 3 main considerations: proper maintenance/upgrade of equipment, environmental data management system, and employee awareness enhancement.
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	5.2.2	Initiatives to improve water efficiency have been discussed in section 5.2.2.
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	5.2.3	It is considered that this aspect is comparatively immaterial amongst others. Its data disclosure will be reviewed in the future.
A3	**The Environment and Natural Resources**	5.4	The significant environmental issues faced in our business regarding emissions and the use of resources are already disclosed in sections 5.2 and 5.3.
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	–	

	Areas and Aspects	Section	Remarks
B	***Social***		
B1	**Employment**	6.1.1	–
B2	**Health and Safety**	6.1.2	–
B3	**Development and Training**	6.2	–
B4	**Labour Standards**	6.3	–
B5	**Supply Chain Management**	7.1	–
B6	**Product Responsibility**	7.2	–
B7	**Anti-corruption**	6.4	–
B8	**Community Investment**	6.5	–

Appendix II: Material Environmental KPIs

	Unit of Measurement	2017 Annual Total
Use of Electricity	**kWh**	12,140,973
Use of Water	**m^3**	319,370
Disposal of Hazardous Waste		
Old T8 Light Tubes	**Tonne**	0.3
Empty Detergent Bottles		0.69
Containers of Cleaning Reagents		1.14

Directors' and Senior Management's Profiles

Directors

Executive Director

Mr. WANG Kin Chung, Peter, *BSc, MBA*, aged 64, became the Company's President and Chief Executive Officer in 1999 and was redesignated as the Chairman and Chief Executive Officer of the Company since 2001. He is also the Chairman of the Share Option Committee of the Company and a director of certain subsidiaries of the Company. Mr. Wang has over 30 years of experience in the garment industry and is responsible for the overall strategic planning and business development of the Company. Mr. Wang obtained a BSc degree in Industrial Engineering from Purdue University in Indiana, USA and an MBA degree from Boston University, USA. He is a non-executive director and a member of the audit committee of Johnson Electric Holdings Limited and the chairman and managing director of Hua Thai Manufacturing Public Company Limited (formerly listed on The Stock Exchange of Thailand).

Mr. Wang won the Young Industrialist Award of Hong Kong in 1998. In 2005, he received the Outstanding Industrial Engineer Award from the School of Industrial Engineering of Purdue University. He was a member of Anhui Provincial Committee of Chinese People's Political Consultative Conference. Mr. Wang is the honorary chairman of the Hong Kong Garment Manufacturers Association, a general committee member of the Textile Council of Hong Kong Limited, a director of The Federation of Hong Kong Garment Manufacturers and a committee vice chairman of The Anhui Fraternity Association (Hong Kong) Limited. He is a son of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company, and a brother of Ms. MAK WANG Wing Yee, Winnie and Dr. WANG Shui Chung, Patrick, Directors of the Company. Mr. Wang is a director of New Perfect Global Limited and Silver Tree Holdings Inc. respectively, which are the substantial shareholders of the Company as disclosed in the "Substantial Shareholders" section of the Report of the Directors.

Non-Executive Directors

Ms. WANG KOO Yik Chun, aged 100, became Co-chairlady and Honorary Co-chairlady in 1999 and 2001 respectively and was then redesignated as the Honorary Chairlady of the Company since 2002. She is the founder of Hwa Fuh Manufacturing Company (Hong Kong) Limited and its subsidiaries. She is also the honorary chairman and a non-executive director of Johnson Electric Holdings Limited, a former director of Hua Thai Manufacturing Public Company Limited (formerly listed on The Stock Exchange of Thailand), and a director of certain subsidiaries of the Company. Ms. Koo is the mother of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, Ms. MAK WANG Wing Yee, Winnie and Dr. WANG Shui Chung, Patrick, Directors of the Company.

Ms. MAK WANG Wing Yee, Winnie, *BSc*, aged 71, obtained her BSc degree from Ohio University, USA and became a Non-Executive Director of the Company in April 1999. She is also a member of the Audit Committee, the Remuneration Committee and the Share Option Committee of the Company. Ms. Wang is a director of two subsidiaries of the Company. She is also the vice chairman of Johnson Electric Holdings Limited. Ms. Wang is a daughter of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company, and a sister of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, and Dr. WANG Shui Chung, Patrick, a Director of the Company.

Dr. WANG Shui Chung, Patrick, *JP, BSc, MSc*, aged 67, obtained his BSc and MSc degrees in Electrical Engineering and received an Honorary Doctorate of Engineering from Purdue University in Indiana, USA. He became a Non-Executive Director of the Company in April 1999 and is a director of a subsidiary of the Company. Dr. Wang is the chairman and chief executive of Johnson Electric Holdings Limited, and an independent non-executive director of VTech Holdings Limited. He is also a member of the Hong Kong Sanatorium & Hospital's Clinical Governance Committee. Dr. Wang previously served as a non-executive director of The Hongkong and Shanghai Banking Corporation Limited, and the chairman and a director of the Hong Kong Applied Science and Technology Research Institute Company Limited. Dr. Wang is a son of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company, and a brother of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, and Ms. MAK WANG Wing Yee, Winnie, a Director of the Company.

Independent Non-Executive Directors

Mr. LO Kai Yiu, Anthony, aged 69, joined the Company in June 1998 as an Independent Non-Executive Director. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Lo is qualified as a chartered accountant with the Canadian Institute of Chartered Accountants and is a member of the Hong Kong Institute of Certified Public Accountants. In addition to over 8 years of professional accounting experience, he has over 30 years of experience in investment banking and other financial services. He is the chairman of Shanghai Century Capital Limited and serves as an independent non-executive director of a number of listed public companies, including Convenience Retail Asia Limited, Lam Soon (Hong Kong) Limited, Playmates Holdings Limited and The Taiwan Fund, Inc.

Mr. James Christopher KRALIK, aged 52, was appointed as an Independent Non-Executive Director of the Company in April 2002. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee of the Company. Mr. Kralik is the managing director of Linden Street Capital Limited, a privately held investment company focused on Greater China-based investment opportunities. He previously served as the chief executive officer of VTech Telecommunications Limited, built and led a Hong Kong-based group of media and entertainment businesses, and was a management consultant with McKinsey & Company, Inc. Mr. Kralik is a graduate of Harvard College and the Harvard Business School.

Mr. Peter TAN, aged 62, was appointed as an Independent Non-Executive Director and a member of the Remuneration Committee of the Company in January 2011. He is an independent non-executive director of The Sincere Company, Limited. Mr. Tan is currently the chief executive officer of TLC Capital Management Pte Ltd., an investment company. Prior to that, he was the chief executive officer of Stone Canyon Pte Ltd, an investment company; and the chief executive officer of Knowledge Universe Pte Ltd, a leading global private education organisation with a network of more than 3,000 locations worldwide. Before joining Knowledge Universe in 2013, Mr. Tan has more than 17 years' experience in the fast food industry. Mr. Tan was the executive vice president and the chief executive officer of Asia Pacific division of Burger King Corporation up to 2012. Before joining Burger King Corporation in 2005, Mr. Tan had served McDonald's Corporation for 10 years and was the senior vice president and the president of its Greater China division, responsible for strategic growth of the business and management of all key functions in the region. Prior to that, Mr. Tan was the vice president of Citibank Singapore, Private Banking Group. He holds a BA degree in Accounting and Finance from the Washington State University, an MBA degree from the Kellogg School of Management at Northwestern University and was the chairman of the Kellogg Alumni Council (Asia).

Senior Management

Mr. Joshua Bruce PERLMAN, aged 48, joined the Group in 2003 and is the Managing Director of the Retail and Wholesale division of the Group's wholly-owned subsidiary, 338 Fashion Co. Limited. Mr. Perlman is also the President of our Men's Smart Casual Brands of the Group – C.P. Company and EFM (Engineered for Motion) in North America. He has over 20 years of experience in China working with renowned consumer lifestyle brands. A graduate of both Tulane University and the Johns Hopkins University Center for Chinese and American Studies in Nanjing, Mr. Perlman is a native of New York City, USA, and is fluent in Mandarin, Chinese.

Ms. SUN Lin, Sophie, aged 42, President of China Retail Business including Cissonne and C.P. Company, joined the Group in 2006. Ms. Sun was instrumental in the creation of Cissonne in 2014, the first ladies' premium brand of the Group. She is also the Director of Product Development and Central Sourcing of the Group. Ms. Sun holds a Master Degree in Business Administration from Fudan University, Shanghai.

Mr. Leo SCORDO, aged 51, joined the Group in 2017. He is the General Manager of C.P. Company, a Men's Sportswear Brand of the Group, and is responsible for business and operational activities for the brand. Before joining the Group, Mr. Scordo had worked for Ermenegildo Zegna Group for 17 years with his last position as Category Director. He has extensive sales, marketing and product development experience in the garment industry. He holds a Bachelor Degree in Business Administration from Luigi Bocconi Commercial University in Italy.

Mr. Donrad DUNCAN, aged 55, Principal Designer and the founder of EFM (Engineered for Motion). EFM was established in 2014 as the first proprietary menswear brand of the Group. Mr. Duncan has presented consecutive collections at the CFDA New York Fashion Week: Men's, and received Fashion Group International's 2016 Rising Star Award for Menswear. He is one of the most influential sportswear designers in men's apparel, and the only designer ever granted access to the legendary garment and fabric engineer Massimo Osti's archive in Bologna, Italy. Prior to founding EFM, he served as Principal Designer of Victorinox/Swiss Army apparel, and later as founder, owner and designer of the Ma.Strum brand, establishing his credentials at the forefront of an elite group of innovators in fabric, design, form and construction.

Mr. DUAN Zijian, Jack, aged 51, President – Contract Manufacturing, joined the Group in 2016. Mr. Duan has previously worked with the Group in 2003 to 2007 as the General Manager of the Panyu factories. Prior to re-joining the Group, he worked as General Manager of Hanesbrands (Nanjing) Textile Co., Ltd. Mr. Duan has extensive operational and management experience in the garment industry. He holds a Master Degree of Science from China Aerospace Academy and a Master Degree in Business Administration from the joint program of Peking University and Fordham University, New York.

Ms. MA Jingyan, Jane, aged 45, Managing Director of the Contract Manufacturing Business Unit, joined the Group in 2001. Ms. Ma has over 16 years of experience in the garment industry primarily on the marketing, sales and product development side for both UK and USA markets. She holds a Master Degree in Business Administration from Fordham University, New York.

Ms. ZHANG Xiaofang, Phyllis, aged 44, Managing Director of the third party fulfillment business. She is also responsible for the supply chain management of all internal brands. Ms. Zhang joined the Group in 2002 and has over 16 years of management experience in the garment industry. She holds a Master Degree in Business Administration from Peking University.

Ms. AU King Lun, Paulina, aged 48, Chief Financial Officer, joined the Group in 2011. Ms. Au has more than 20 years of experience in finance and accounting. Prior to joining the Group, she worked in companies covering a wide range of industries including companies listed in the Hong Kong and USA. In addition, she possesses professional accounting and auditing experience with PricewaterhouseCoopers Hong Kong. Ms. Au holds a Bachelor Degree in Accountancy from The City University of Hong Kong and a Master Degree in Applied Finance from Macquarie University, Australia. She is a member of the Hong Kong Institute of Certified Public Accountants.

The Board of Directors (the "Board") of Tristate Holdings Limited (the "Company") presents its report together with the audited financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2017.

Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are (i) garment manufacturing, and (ii) brands business.

An analysis of the Group's revenue and results for the year by segment is set out in Note 4 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit and loss on page 48.

No interim dividend was paid for the six months ended 30 June 2017 (2016: Nil).

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

Business Review

The business review of the Group for the year ended 31 December 2017 is set out in the section headed "Management Discussion and Analysis" on pages 6 to 11 of this Annual Report.

Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2017 is set out on page 3.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 14 to the consolidated financial statements.

Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2017 are set out in Note 40 to the consolidated financial statements.

Associate

Particulars of the Group's interests in an associate are set out in Note 18 to the consolidated financial statements.

Share Capital

Details of the share capital of the Company are set out in Note 30 to the consolidated financial statements.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in Notes 31 and 37(b) to the consolidated financial statements respectively.

Distributable Reserves

As at 31 December 2017, the reserves of the Company amounted to HK$447,127,000 (2016: HK$446,978,000) and retained earnings amounted to HK$455,668,000 (2016: HK$440,993,000); of which HK$886,688,000 (2016: HK$872,013,000) were available for distribution to equity shareholders of the Company as calculated in accordance with the Bermuda Companies Act 1981.

Share Options

A new share option scheme (the "2016 Share Option Scheme") was approved and adopted by the shareholders of the Company at the AGM of the Company held on 6 June 2016 (the "2016 AGM") for granting of share options to eligible persons to subscribe for shares of the Company.

In relation to the share option scheme adopted by the Company on 2 April 2007 (the "2007 Share Option Scheme"), the termination of which was approved at the 2016 AGM. Upon termination, no further share options can be offered under the 2007 Share Option Scheme but all outstanding share options granted thereunder shall continue to be valid and exercisable in accordance with the terms of the 2007 Share Option Scheme.

A. The 2007 Share Option Scheme

The principal terms of the 2007 Share Option Scheme are summarised below:

Purpose	:	To attract and motivate high quality employees and officers of the members of the Group, to provide the participants who have been granted options under the 2007 Share Option Scheme to subscribe for shares of the Company with the opportunity to acquire proprietary interests in the Company, to encourage participants to work towards achieving certain performance targets in order to enhance the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, and to retain participants who achieve such performance targets.
Participants	:	The employees and officers of any member (from time to time) of the Group including, without limitation, directors, senior vice presidents, factory general managers, vice presidents and other full-time employees of any member of the Group as determined by the Board from time to time.
Total number of shares available for issue and the percentage of the issued share capital that it represents as at the date of this report	:	The maximum number of shares which may be issued upon exercise of all options to be granted under the 2007 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of adoption of the 2007 Share Option Scheme. The termination of the 2007 Share Option Scheme was approved at the 2016 AGM. Upon termination, no further options can be offered under the 2007 Share Option Scheme.
Maximum entitlement of each participant	:	Not exceeding 1% of the shares of the Company in issue in any 12 months period.
Period within which the shares must be taken up under an option	:	The period within which the options must be exercised will be specified by the Board at the time of grant. This period must expire no later than 10 years from the relevant date of grant.
Minimum period for which an option must be held before it can be exercised	:	At the time of grant of the options, the Board may specify any minimum period(s) for which an option must be held before it can be exercised. The 2007 Share Option Scheme does not contain any such minimum period.
Amount payable on acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	:	HK$1.00 (or its equivalent), to be paid within 10 business days from the date on which the letter containing the offer is issued to that participant.
Basis of determining the exercise price	:	The subscription price for the shares which are the subject of the options shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price will be determined by the Board at the time the option is offered to the participant.
Remaining life of the 2007 Share Option Scheme	:	The termination of the 2007 Share Option Scheme was approved at the 2016 AGM. No options may be granted under the 2007 Share Option Scheme upon termination.

Movements in the share options under the 2007 Share Option Scheme during the year ended 31 December 2017 were as follows:

Date of grant	Participant	Number of share options: At 1 January 2017	Lapsed during the year	At 31 December 2017	Exercise price per share	Exercisable period
18 June 2012	Employees (in aggregate)	80,000	(80,000)	**–**	HK$5.06	18 June 2012 – 17 June 2017
		80,000	(80,000)	**–**	HK$5.06	18 June 2013 – 17 June 2017
		80,000	(80,000)	**–**	HK$5.06	18 June 2014 – 17 June 2017
		80,000	(80,000)	**–**	HK$5.06	18 June 2015 – 17 June 2017
3 June 2013	Employees (in aggregate)	104,000	–	**104,000**	HK$3.92	3 June 2013 – 2 June 2018
		104,000	–	**104,000**	HK$3.92	3 June 2014 – 2 June 2018
		104,000	–	**104,000**	HK$3.92	3 June 2015 – 2 June 2018
		104,000	–	**104,000**	HK$3.92	3 June 2016 – 2 June 2018
9 June 2014	Employees (in aggregate)	106,000	–	**106,000**	HK$3.10	9 June 2014 – 8 June 2019
		106,000	–	**106,000**	HK$3.10	9 June 2015 – 8 June 2019
		106,000	–	**106,000**	HK$3.10	9 June 2016 – 8 June 2019
		106,000	–	**106,000**	HK$3.10	9 June 2017 – 8 June 2019
8 June 2015	Employees (in aggregate)	135,000	–	**135,000**	HK$2.97	8 June 2015 – 7 June 2020
		135,000	–	**135,000**	HK$2.97	8 June 2016 – 7 June 2020
		135,000	–	**135,000**	HK$2.97	8 June 2017 – 7 June 2020
		135,000	–	**135,000**	HK$2.97	8 June 2018 – 7 June 2020
9 May 2016	Employees (in aggregate)	141,000	–	**141,000**	HK$2.28	9 May 2016 – 8 May 2021
		141,000	–	**141,000**	HK$2.28	9 May 2017 – 8 May 2021
		141,000	–	**141,000**	HK$2.28	9 May 2018 – 8 May 2021
		141,000	–	**141,000**	HK$2.28	9 May 2019 – 8 May 2021
	Total	2,264,000	(320,000)	**1,944,000**		

Notes:

1. The above options vest in four equal tranches over a period of three years from the relevant date of grant.

2. No options were granted, exercised or cancelled during the year.

Other details of the share options under the 2007 Share Option Scheme are set out in Note 32 to the consolidated financial statements.

B. The 2016 Share Option Scheme

The principal terms of the 2016 Share Option Scheme are summarised below:

Purpose	:	To provide the participants who have been granted options under the 2016 Share Option Scheme with the opportunity to acquire proprietary interests in the Company, to encourage participants to work towards achieving the relevant performance targets in order to enhance the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, and to retain participants who achieve such performance targets.
Participants	:	The directors, officers and employees of any member of the Group as determined by the Board from time to time.
Total number of shares available for issue and the percentage of the issued share capital that it represents as at the date of this report	:	The maximum number of shares which may be issued upon exercise of all options to be granted under the 2016 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at 6 June 2016, the date of 2016 AGM approving and adopting the 2016 Share Option Scheme. The total number of shares available for issue under the 2016 Share Option Scheme is 26,204,725 shares, representing 9.65% of the issued share capital of the Company as at the date of this report.
Maximum entitlement of each participant	:	Not exceeding 1% of the shares of the Company in issue in any 12 months period.
Period within which the shares must be taken up under an option	:	The period within which the options must be exercised will be specified by the Board at the time of grant. This period must expire no later than 10 years from the relevant date of grant.
Minimum period for which an option must be held before it can be exercised	:	At the time of grant of the options, the Board may specify any minimum period(s) for which an option must be held before it can be exercised. The 2016 Share Option Scheme does not contain any such minimum period.
Amount payable on acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	:	HK$1.00 (or its equivalent), to be paid within 10 business days from the date on which the letter containing the offer is issued to that participant.
Basis of determining the exercise price	:	The subscription price for the shares shall be such price determined by the Board at its absolute discretion and notified to the participant in the offer and shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant.
Remaining life of the 2016 Share Option Scheme	:	No options may be granted under the 2016 Share Option Scheme on or after the date of the tenth anniversary of the adoption of the 2016 Share Option Scheme.

Movements in the share options under the 2016 Share Option Scheme during the year ended 31 December 2017 were as follows:

Date of grant	Participant	Number of share options: At 1 January 2017	Granted during the year	At 31 December 2017	Exercise price per share	Exercisable period
5 June 2017 *(Notes 2 & 3)*	Employees (in aggregate)	–	239,000	**239,000**	HK$1.68	5 June 2017 – 4 June 2022
		–	239,000	**239,000**	HK$1.68	5 June 2018 – 4 June 2022
		–	239,000	**239,000**	HK$1.68	5 June 2019 – 4 June 2022
		–	239,000	**239,000**	HK$1.68	5 June 2020 – 4 June 2022
	Total	–	956,000	**956,000**		

Notes:

1. The above options vest in four equal tranches over a period of three years from the relevant date of grant.

2. The Company received a consideration of HK$1.00 from each of the grantees for the options granted during the year.

3. The closing price of the shares of the Company on 2 June 2017, being the business day immediately before the date on which the options were granted, as quoted on the Stock Exchange, was HK$1.68.

4. No options were exercised, cancelled or lapsed during the year.

5. The fair value of the options granted during the year determined using the Trinomial valuation model was HK$0.56 per option. The significant inputs into the model are as follows:

Share price at the grant date	HK$1.68
Exercise price	HK$1.68
Dividend yield	0%
Volatility	38%
Annual risk-free interest rate	1%

The volatility at the grant date, which measured the standard deviation of expected share price returns, is based on statistics of 260-week historical volatilities of comparable companies within the industry.

The aggregate fair value of the options granted during the year amounted to HK$534,000 is to be recognised as employment benefit expense over the vesting periods together with a corresponding increase in equity. Such fair value is subject to a number of assumptions and with regard to the limitation of the Trinomial valuation model.

Other details of the share options under the 2016 Share Option Scheme are set out in Note 32 to the consolidated financial statements.

Bank Borrowings

Details of the bank borrowings of the Group are set out in Note 26 to the consolidated financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$123,000 (2016: HK$126,000).

Directors

The directors of the Company (the "Directors") who held office during the year and up to the date of this report are:

Executive Director:

Mr. WANG Kin Chung, Peter
(Chairman and Chief Executive Officer)

Non-Executive Directors:

Ms. WANG KOO Yik Chun
(Honorary Chairlady)
Ms. MAK WANG Wing Yee, Winnie
Dr. WANG Shui Chung, Patrick

Independent Non-Executive Directors:

Mr. LO Kai Yiu, Anthony
Mr. James Christopher KRALIK
Mr. Peter TAN

For compliance with Code Provision A.4.2 set out in the Corporate Governance Code of the Listing Rules and in accordance with Bye-Laws 85 and 86 of the Company's Bye-Laws, Mr. WANG Kin Chung, Peter will voluntarily retire and Dr. WANG Shui Chung, Patrick and Mr. LO Kai Yiu, Anthony will retire by rotation and, being eligible, offer themselves for re-election as Directors at the forthcoming 2018 AGM.

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of his independence and considers that each of the Independent Non-Executive Directors is independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules.

Biographical Details of Directors and Senior Management

The following is a change in a Director's biographical details since the date of the Company's interim report for the six months ended 30 June 2017 issued in September 2017, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

Mr. WANG Kin Chung, Peter
Cessation of appointment
– Member of Anhui Provincial Committee of Chinese People's Political Consultative Conference

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Brief biographical details of the Directors and the Senior Management of the Group as at the date of this report are set out on pages 32 to 33.

Directors' Interests in Securities

As at 31 December 2017, the interests and short positions 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 (the "SFO")) which were (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 of the Listing Rules, were as follows:

Interests in shares of the Company

Name of Director	Long/short position	Number of shares held: Through spouse or minor child	Number of shares held: Through controlled corporation	Total	Approximate percentage of issued share capital
Mr. WANG Kin Chung, Peter	Long position	3,212,000 *(Note 1)*	182,517,000 *(Note 2)*	185,729,000	68.38%

Interests in shares of Hua Thai Manufacturing Public Company Limited ("Hua Thai")

Name of Director	Long/short position	Class	Number of shares held: Through spouse or minor child	Total	Approximate percentage of issued share capital
Ms. WANG KOO Yik Chun	Long position	Ordinary share	2,500 *(Note 3)*	2,500	0.03%

Notes:

1. 3,212,000 shares were beneficially owned by Ms. Daisy TING, the spouse of Mr. WANG Kin Chung, Peter.

2. 182,517,000 shares were beneficially owned by Silver Tree Holdings Inc., a company 100% controlled by New Perfect Global Limited, which in turn was a company wholly owned by Mr. WANG Kin Chung, Peter.

3. 2,500 shares in Hua Thai were held by the late Mr. WANG Seng Liang, the spouse of Ms. WANG KOO Yik Chun.

Save as disclosed above, as at 31 December 2017, none of the Directors or the chief executive of the Company had any 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 (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Stock Exchange pursuant to the Model Code.

Arrangement to Acquire Shares or Debentures

Save as disclosed in the "Share Options" section in this report and in Note 32 to the consolidated financial statements, at no time during the year or at the end of the year was the Company, its subsidiaries, its holding company or the subsidiaries of its holding company, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Equity-Linked Agreements

Save as disclosed in the "Share Options" section in this report and in Note 32 to the consolidated financial statements, at no time during the year or at the end of the year was the Company a party to any equity-linked agreements.

Directors' Service Contracts

None of the Directors proposed for re-election at the 2018 AGM has a service contract with the Group, which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Interests of Directors and Controlling Shareholders in Transactions, Arrangements or Contracts of Significance

Save as disclosed in the section headed "Continuing Connected Transactions" in this report, no transaction, arrangement or contract of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party and in which any of the Company's Director or an entity connected with the Director or controlling shareholder or its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Interests in Competing Businesses

During the year ended 31 December 2017, none of the Directors had any interest in business apart from the Group's businesses which competed, or was likely to compete, either directly or indirectly, with the Group's businesses under Rule 8.10 of the Listing Rules.

Substantial Shareholders

As at 31 December 2017, the following persons (other than the Directors or the chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Long/short position	Number of shares held: Directly beneficially owned	Through spouse or minor child	Through controlled corporation	Total	Approximate percentage of issued share capital
Ms. Daisy TING	Long position	3,212,000	182,517,000 *(Note)*	–	185,729,000	68.38%
New Perfect Global Limited	Long position	–	–	182,517,000 *(Note)*	182,517,000	67.20%
Silver Tree Holdings Inc.	Long position	182,517,000 *(Note)*	–	–	182,517,000	67.20%

Note:

These interests relate to the same block of shares of the Company, which were beneficially owned by Silver Tree Holdings Inc., a company 100% controlled by New Perfect Global Limited, which in turn was a company wholly owned by Mr. WANG Kin Chung, Peter. Since Ms. Daisy TING is the spouse of Mr. WANG Kin Chung, Peter, she is deemed to be interested in the shares controlled by Mr. WANG Kin Chung, Peter under Part XV of the SFO.

Save as disclosed above, as at 31 December 2017, no other person (other than a Director or the chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

Emolument Policy

The Group provides competitive compensation and benefits for its employees, including group personal accident insurance, retirement and medical benefit schemes.

Remuneration packages are generally structured by reference to market and individual merits. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Those employees with outstanding performance are also awarded discretionary bonuses and share options.

Emolument policy is reviewed regularly by the Board and by the Remuneration Committee in respect of the Directors and Senior Management. The emoluments payable to the Directors are determined at arm's length on the basis of responsibilities involved, time devoted, current financial position of the Company and the prevailing market conditions.

Details of the emoluments of the Directors for the year ended 31 December 2017 are set out in Note 12 to the consolidated financial statements.

Permitted Indemnity Provision

Pursuant to Bye-Law 145 of the Company's Bye-Laws, the Directors shall be indemnified out of the assets of the Company from liabilities which they may incur by reason of the execution of their duties, unless such indemnification provision is avoided by any provisions of the applicable laws of Bermuda.

The Company has arranged directors' and officers' liability insurance during the year.

Retirement Benefit Schemes

Details of the retirement benefit schemes of the Group are set out in Note 27 to the consolidated financial statements.

Management Contract

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year.

Major Customers and Suppliers

The percentage of revenue from sales of goods or rendering of services attributable to the Group's largest customer and the five largest customers combined were 18% and 59%, respectively.

The aggregate purchases attributable to the Group's five largest suppliers combined were less than 30% of the Group's total purchases for the year.

None of the Directors, their close associates, or any shareholder (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) had, at any time during the year, a beneficial interest in any of the Group's five largest customers.

Continuing Connected Transactions

On 24 February 2015, Gold Flower Limited ("Gold Flower"), a wholly-owned subsidiary of the Company, as tenant, entered into a tenancy agreement (the "Previous TA") with TDB Company Limited ("TDB"), as landlord, for the leasing of the premises at Ground Floor, 2nd to 11th Floors, and a portion of 1st Floor, Tak Tai Industrial Building, 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong (the "Building") (the "Premises") for a term of two years from 1 April 2015 to 31 March 2017.

On 30 April 2015, Gold Flower and TDB entered into a supplemental tenancy agreement (the "Previous Supplemental TA") to the Previous TA whereby the parties agreed to reduce the rented space of the Premises and the monthly rent was reduced proportionately with effect from 1 May 2015 with all other terms and conditions of the Previous Tenancy Agreement remaining unchanged.

On 13 February 2017, a new tenancy agreement (the "New TA") was entered into between Gold Flower as tenant, and TDB as landlord, for the leasing of the premises at Ground Floor, 2nd Floor, 4th to 7th Floors, 9th to 10th Floors, and a portion of flat roofs on 3rd Floor of the Building for a term of two years from 1 April 2017 to 31 March 2019.

On 26 March 2018, Gold Flower entered into the supplemental tenancy agreement (the "New Supplemental TA") to the New TA with TDB to surrender the 2nd Floor and take over the 8th Floor of the Building so as to reduce the area rented and the monthly rent payable with effect from 15 March 2018 with all other terms and conditions of the New Tenancy Agreement remaining unchanged.

As at the respective dates of the Previous TA, the Previous Supplemental TA, the New TA and the New Supplemental TA, the entire issued share capital of TDB was held by a discretionary trust of which Mr. WANG Kin Chung, Peter and Ms. WANG KOO Yik Chun, both being Directors, were eligible beneficiaries. TDB was therefore a connected person of the Company for the purpose of the Listing Rules. Accordingly, the entering into of the Previous TA (as amended by the Previous Supplemental TA) and the New TA (as amended by the New Supplemental TA) constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules (the "Continuing Connected Transactions").

Details of the Previous Tenancy Agreement (as amended by the Previous Supplemental Tenancy Agreement) were as follows:

Term	:	Two years from 1 April 2015 to 31 March 2017
Monthly rent	:	HK$717,000 for the period from 1 April 2015 to 30 April 2015 (pursuant to the Previous TA) HK$693,000 for the period from 1 May 2015 to 31 March 2017 (pursuant to the Previous Supplemental TA) (excluding management fees, government rates and government rent)
Use of the premises rented	:	As factory, storage and ancillary office of the Company and certain of its subsidiaries

Details of the New TA (as amended by the New Supplemental TA) were as follows:

Term	:	Two years from 1 April 2017 to 31 March 2019
Monthly rent	:	HK$570,000 for the period from 1 April 2017 to 14 March 2018 (pursuant to the New TA) HK$550,000 for the period from 15 March 2018 to 31 March 2019 (pursuant to the New Supplemental TA) (excluding management fees, government rates and government rent)
Use of the premises rented	:	As factory, storage and ancillary office of the Company and certain of its subsidiaries

The annual rent paid by Gold Flower under the Previous TA (as amended by the Previous Supplemental TA) for each of the three financial years ended 31 December 2017 was as follows:

Period	Annual Rent Paid *HK$*
1 April 2015 to 31 December 2015	6,261,000
1 January 2016 to 31 December 2016	8,316,000
1 January 2017 to 31 March 2017	2,079,000

Furthermore, as the monthly rent payable has been reduced from HK$570,000 to HK$550,000 with effect from 15 March 2018, the annual caps for the remaining term were reduced accordingly. The annual cap for the financial year ended 31 December 2017 and the revised annual caps for each of the two financial years ending 31 December 2019 are as follows:

Period	Annual Cap *HK$*
1 April 2017 to 31 December 2017	5,130,000
1 January 2018 to 31 December 2018	6,649,032
1 January 2019 to 31 March 2019	1,650,000

The terms of the Previous TA, the Previous Supplemental TA, the New TA and the New Supplemental TA were arrived at after arm's length negotiations between Gold Flower and TDB, and on the basis of the valuation made by an independent property valuer.

For the year ended 31 December 2017, the rent paid under the Pervious TA (as amended by the Previous Supplemental TA) and the New TA did not exceed the original annual caps set under the aforesaid two tenancy agreements.

Further details of the Continuing Connected Transactions were set out in the announcements of the Company dated 24 February 2015, 13 February 2017, 26 March 2018 and 4 April 2018.

The Independent Non-Executive Directors have reviewed the Continuing Connected Transactions and confirmed that during the year and up to the date of this report such transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with the Previous TA (as amended by the Previous Supplemental TA) and the New TA (as amended by the New Supplemental TA) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Continuing Connected Transactions during the year in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing the auditor's findings and conclusion in respect of the Continuing Connected Transactions disclosed on pages 41 to 42 of this Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Related Party Transactions

Details of the related party transactions of the Group are set out in Note 35 to the consolidated financial statements.

The tenancy agreements under Note 35(a) constituted continuing connected transactions for the Company under the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The cash advance under Note 35(b)(ii) constituted a connected transaction but was exempt from the disclosure requirements under the Listing Rules.

The remaining related party transactions under Note 35(b)(i) were not connected transactions under the Listing Rules.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-Laws and there are no restrictions against such rights under the laws of Bermuda (being the jurisdiction in which the Company was incorporated).

Purchase, Sale or Redemption of Shares

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules during the year and up to the date of this report.

Corporate Governance Code

Throughout the year ended 31 December 2017, the Company has complied with all the Code Provisions set out in the CG Code, except for the deviation from Code Provisions A.2.1 and A.5.

Considered reasons for the deviation from Code Provisions A.2.1 and A.5 as well as further information of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 12 to 19.

Auditor

At the conclusion of the annual general meeting of the Company held on 8 June 2015, PricewaterhouseCoopers retired as auditor of the Company upon expiration of its term of office. KPMG was then appointed as auditor of the Company.

The consolidated financial statements have been audited by KPMG who will retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Hong Kong, 26 March 2018

KPMG

Independent Auditor's Report to the Shareholders of Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Tristate Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 48 to 90, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

Assessment of potential impairment of property, plant and equipment ("PP&E"), leasehold land and land use rights

Refer to Notes 3(b), 14 and 15 to the consolidated financial statements and the accounting policies in Notes 2(g), 2(h) and 2(u).

The Key Audit Matter

In view of the loss sustained by the Group for the year ended 31 December 2017, management considered that indicators of potential impairment of PP&E, leasehold land and land use rights existed as at 31 December 2017.

The Group's PP&E, leasehold land and land use rights mainly comprise assets used in the Group's garment manufacturing business and assets treated by the Group as corporate assets.

In assessing whether impairment existed at the reporting date, management determined the recoverable amounts of the smallest cash-generating units ("CGUs") to which these assets were allocated. The recoverable amount of a CGU is the greater of its value in use and the fair value less cost of disposal of the related assets.

In order to determine the recoverable amounts management prepared discounted cash flow forecasts and engaged independent external valuers to perform valuations of the buildings, leasehold land and land use rights.

How the matter was addressed in our audit

Our audit procedures to assess the potential impairment of PP&E, leasehold land and land use rights included the following:

- assessing and challenging the Group's impairment assessment models, which included evaluating the indicators of impairment and the allocation of assets to CGUs and assessing whether the impairment assessment models were prepared in accordance with the requirements of the prevailing accounting standards;
- obtaining and inspecting the valuation reports prepared by the independent external valuers engaged by the Group and assessing the independent external valuers' qualifications, experience and expertise in the assets being valued and considering their objectivity and independence;
- with the assistance of our internal property valuation specialists, discussing with the independent external valuers and challenging their valuation methodology and the key estimates and assumptions adopted in their valuations, which included property-specific adjustment factors and the choice of market comparable transactions, taking into consideration of comparability and other market factors;

Key Audit Matters (Continued)

Assessment of potential impairment of property, plant and equipment ("PP&E"), leasehold land and land use rights (Continued)

The Key Audit Matter (Continued)

The preparation of discounted cash flow forecasts involves significant management judgement, in particular in relation to the forecasts of future revenue, future margins, future cost growth rates and the discount rates applied.

The valuations prepared by the independent external valuers also involve significant judgement, particularly in respect of property-specific adjustment factors and the choice of market comparable transactions.

We have identified the potential impairment of PP&E, leasehold land and land use rights as a key audit matter because of the potential significance of any impairment charge to the results of the Group for year and because forecasting future cash flows and valuing the Group's buildings, leasehold land and land use rights can be inherently subjective and require significant judgement and estimation which increase the risk of error or potential management bias.

How the matter was addressed in our audit (Continued)

- challenging the key assumptions adopted by management in their preparation of the discounted cash flow forecasts and comparing the significant inputs, such as future revenue, future margins and future cost growth rates with the historical performance of the relevant CGUs;
- comparing the key assumptions included in the discounted cash flow forecasts for the prior year with the current year's performance to assess the reliability of management's forecasting process and making enquiries of management as to the reasons for any significant variations identified;
- engaging our internal valuation specialists to assist us in evaluating whether the discount rates used in the cash flow forecasts were within the range adopted by other companies in the same industry; and
- performing a sensitivity analysis for both the discount rates and cash flows and considering the resulting impact on the impairment charge for the year and whether there were any indicators of management bias.

Assessment of potential impairment of a trademark

Refer to Notes 3(b) and 16 to the consolidated financial statements and the accounting policies in Notes 2(i)(iii) and 2(u).

The Key Audit Matter

The carrying value of the Group's trademark as at 31 December 2017 was HK$183 million, which represented the consideration paid for a newly acquired brand, C.P. Company, in late 2015. The useful life of the trademark is considered to be indefinite.

Management performs an annual impairment assessment of the trademark by comparing the carrying value of the trademark with its estimated value in use, which is calculated using a discounted cash flow forecast, to determine if any impairment is necessary at the reporting date.

We have identified the potential impairment of the trademark as a key audit matter because the impairment assessment prepared by management of the Group is complex and contains certain judgemental assumptions, particularly in respect of the long term growth rate, the terminal growth rate and the discount rate applied and because the determination of such assumptions is inherently uncertain and could contain management bias.

How the matter was addressed in our audit

Our audit procedures to assess the potential impairment of the trademark included the following:

- comparing the revenue and operating costs included in discounted cash flow forecast prepared in the prior year with the current year's performance to assess how accurate the prior year's discounted cash flow forecast was and making enquiries of management as to the reasons for any significant variations identified;
- reviewing the methodology adopted by management in determining the recoverable amount of the trademark with reference to the requirements of the prevailing accounting standards;
- engaging our internal valuation specialists to assist us in assessing whether the key assumptions adopted in the discounted cash flow forecast, which included the long term growth rate, the terminal growth rate and the discount rate, were comparable with those of companies in the same industry and external market data; and
- performing a sensitivity analysis of the key assumptions adopted in the discounted cash flow forecast prepared by management and assessing the impact of changes in the key assumptions to the conclusion reached in the impairment assessment and whether there were any indicators of management bias.

Information other than the Consolidated Financial Statements and Auditor’s Report thereon

The directors are responsible for the other information. The other information comprises all 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 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors 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. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- 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 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 Ms. HUI Sau Yee, Jenny.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

26 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	Note	**2017** **HK$'000**	2016 HK$'000
Revenue	4	**1,922,706**	2,253,655
Cost of sales		**(1,500,872)**	(1,724,106)
Gross profit		**421,834**	529,549
Other income and other gains	5	**30,990**	87,777
Selling and distribution expenses		**(98,939)**	(174,103)
General and administrative expenses		**(421,218)**	(506,425)
Loss from operations	6	**(67,333)**	(63,202)
Finance income	7	**4,457**	7,217
Finance costs	7	**(4,310)**	(5,942)
Loss before tax		**(67,186)**	(61,927)
Income tax credit/(expense)	8	**2,206**	(24,684)
Loss for the year		**(64,980)**	(86,611)
Attributable to:			
Equity shareholders of the Company		**(64,180)**	(84,091)
Non-controlling interests		**(800)**	(2,520)
Loss for the year		**(64,980)**	(86,611)
Loss per share attributable to equity shareholders of the Company:			
Basic	10	**HK$(0.24)**	HK$(0.31)
Diluted	10	**HK$(0.24)**	HK$(0.31)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	2017 **HK$'000**	2016 HK$'000
Loss for the year	**(64,980)**	(86,611)
Other comprehensive income, net of nil tax unless specified:		
Items that may be reclassified subsequently to profit or loss		
Fair value changes on cash flow hedges		
Gains/(losses) arising during the year	**43,063**	(24,912)
Transferred to and included in the following line items in the consolidated statement of profit or loss:		
Cost of sales	**5,558**	9,886
General and administrative expenses	**1,037**	2,487
Exchange difference on translation of financial statements of overseas subsidiaries	**73,518**	(48,603)
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans and long service payment liabilities	**(1,857)**	2,044
Income tax effect	**296**	(515)
Other comprehensive income for the year	**121,615**	(59,613)
Total comprehensive income for the year	**56,635**	(146,224)
Attributable to:		
Equity shareholders of the Company	**57,435**	(143,704)
Non-controlling interests	**(800)**	(2,520)
Total comprehensive income for the year	**56,635**	(146,224)

The notes on pages 52 to 90 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	As at 31 December 2017 HK$'000	As at 31 December 2016 HK$'000
Non-Current Assets			
Property, plant and equipment	14	**325,958**	332,149
Leasehold land and land use rights	15	**136,392**	130,863
Intangible assets	16	**208,334**	189,527
Other long-term assets	17	**12,708**	10,809
Deferred tax assets	29	**4,669**	5,782
Defined benefit plan assets	27	**7,769**	7,735
Forward foreign exchange contracts	21	**382**	–
Interest in an associate	18	**–**	–
		696,212	676,865
Current Assets			
Inventories	19	**231,769**	242,527
Accounts receivable and bills receivable	20	**264,864**	278,451
Forward foreign exchange contracts	21	**913**	316
Prepayments and other receivables	22	**74,709**	154,827
Current tax recoverable		**1,054**	552
Cash and bank balances	23	**512,990**	523,241
		1,086,299	1,199,914
Current Liabilities			
Accounts payable and bills payable	24	**105,537**	88,129
Accruals and other payables	25	**195,508**	210,848
Forward foreign exchange contracts	21	**6,239**	19,629
Current tax liabilities		**5,535**	10,422
Bank borrowings	26	**98,871**	198,905
		411,690	527,933
Net Current Assets		**674,609**	671,981
Total Assets Less Current Liabilities		**1,370,821**	1,348,846

	Note	As at 31 December 2017 HK$'000	As at 31 December 2016 HK$'000
Non-Current Liabilities			
Retirement benefits and other post retirement obligations	27	**24,500**	19,812
License fees payable	28	**26,613**	24,938
Deferred tax liabilities	29	**25,221**	31,434
Forward foreign exchange contracts	21	**1,399**	36,689
		77,733	112,873
Net Assets		**1,293,088**	1,235,973
Capital and Reserves			
Share capital	30	**27,161**	27,161
Reserves	31	**1,268,875**	1,210,960
Total equity attributable to equity shareholders of the Company		**1,296,036**	1,238,121
Non-controlling interests		**(2,948)**	(2,148)
Total Equity		**1,293,088**	1,235,973

Approved and authorised for issue by the Board of Directors on 26 March 2018.

WANG Kin Chung, Peter
Director

MAK WANG Wing Yee, Winnie
Director

The notes on pages 52 to 90 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to equity shareholders of the Company				
	Share capital *HK$'000*	**Reserves** *HK$'000*	**Total** *HK$'000*	**Non-controlling interests** *HK$'000*	**Total equity** *HK$'000*
As at 1 January 2017	**27,161**	**1,210,960**	**1,238,121**	**(2,148)**	**1,235,973**
Loss for the year	**–**	**(64,180)**	**(64,180)**	**(800)**	**(64,980)**
Other comprehensive income, net of tax	**–**	**121,615**	**121,615**	**–**	**121,615**
Total comprehensive income	**–**	**57,435**	**57,435**	**(800)**	**56,635**
Share option scheme – value of employee services	**–**	**480**	**480**	**–**	**480**
As at 31 December 2017	**27,161**	**1,268,875**	**1,296,036**	**(2,948)**	**1,293,088**

	Attributable to equity shareholders of the Company				
	Share capital *HK$'000*	Reserves *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
As at 1 January 2016	27,161	1,354,371	1,381,532	314	1,381,846
Loss for the year	–	(84,091)	(84,091)	(2,520)	(86,611)
Other comprehensive income, net of tax	–	(59,613)	(59,613)	–	(59,613)
Total comprehensive income	–	(143,704)	(143,704)	(2,520)	(146,224)
Share option scheme – value of employee services	–	417	417	–	417
Non-controlling interests arising from acquisition of a subsidiary	–	–	–	(62)	(62)
Acquisition of non-controlling interest	–	(124)	(124)	120	(4)
As at 31 December 2016	27,161	1,210,960	1,238,121	(2,148)	1,235,973

The notes on pages 52 to 90 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2017

	Note	**2017 HK$'000**	2016 HK$'000
Operating activities			
Cash generated from operations	36(a)	**107,475**	68,054
Income tax paid		**(8,263)**	(35,811)
Income tax refunded		**–**	348
Net cash generated from operating activities		**99,212**	32,591
Investing activities			
Interest received		**4,339**	5,302
Payment for the purchase of property, plant and equipment		**(28,116)**	(29,598)
Payment for the purchase of intangible assets		**–**	(436)
Proceeds from disposals of property, plant and equipment		**1,553**	815
Decrease in short-term bank deposits, with maturities over 3 months		**95,496**	86,423
(Increase)/decrease in bank structured deposits		**(1,920)**	1,853
Acquisition of a subsidiary		**–**	(5,327)
Acquisition of non-controlling interests		**–**	(4)
Net cash generated from investing activities		**71,352**	59,028
Financing activities			
Interest paid		**(2,826)**	(5,450)
Proceeds from new bank borrowings	36(b)	**568,285**	1,280,458
Repayment of bank borrowings	36(b)	**(668,319)**	(1,409,034)
Net cash used in financing activities		**(102,860)**	(134,026)

	Note	**2017 HK$'000**	2016 HK$'000
Net increase/(decrease) in cash and cash equivalents		**67,704**	(42,407)
Cash and cash equivalents at beginning of the year	23	**375,175**	429,792
Effect on foreign exchange rate changes		**15,621**	(12,210)
Cash and cash equivalents at end of the year	23	**458,500**	375,175

The notes on pages 52 to 90 form part of these financial statements.

Notes to the Consolidated Financial Statements

1. General Information

Tristate Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The address of its head office and principal place of business in Hong Kong is 5th Floor, 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong.

The principal activities of the Company and its subsidiaries (together the "Group") are (i) garment manufacturing, and (ii) brands business.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 1988.

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors of the Company (the "Board") on 26 March 2018.

2. Significant Accounting Policies

The basis of preparation and significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual 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. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Group and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the derivative financial instruments are stated at their fair values (see Note 2(m)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 36(b) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

2. Significant Accounting Policies (Continued)

(d) Consolidation (Continued)

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate (see Note 2(e)) or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(u)).

(e) Associate

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(u)). Any acquisition date excess over cost, the Group's share of the post-acquisition post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(f) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and the Group's presentation currency.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income (see Note 2(m)).

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

2. Significant Accounting Policies (Continued)

(g) Property, plant and equipment

Interests in freehold land are stated at cost less impairment loss (see Note 2(u)) and not depreciated. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(u)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives, as follows:

Buildings	2% – 10%
Plant and machinery	10% – 33%
Leasehold improvements, furniture, fixtures and equipment	4% – 33%
Motor vehicles	14% – 20%

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Leasehold land and land use rights

Leasehold land and land use rights are classified as either finance or operating leases depending upon whether the lease transfers substantially all the risks and rewards incidental to its ownership to the Group.

When the interests are classified as operating leases, the premiums paid to acquire leasehold land and land use rights are recorded as prepayment for operating lease, and are amortised on a straight-line basis over the period of the leases and land use rights of 10 to 50 years. Where there is impairment, the impairment is expensed immediately in the consolidated statement of profit or loss.

When the interests are classified as finance leases and held for own use, the land interest is accounted for as property, plant and equipment.

(i) Intangible assets

(i) Goodwill

Goodwill represents the excess of (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU"), or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(u)).

On disposal of a CGU during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(ii) License rights/License fees payable

License rights on branded products are stated at cost less accumulated amortisation and impairment losses (see Note 2(u)). License rights are initially measured as the fair value of the consideration given for the recognition of the license rights at the time of their inception. The consideration given is determined based on the capitalisation of the minimum license fee payments in accordance with the license agreements.

License fees payable in respect of the inception of the license rights are initially recognised at fair value of the consideration given for the recognition of the license rights at the time of the inception, which represents present values of the contractual minimum payments that can be reliably estimated at the time of the inception. They are subsequently stated at amortised cost using the effective interest method.

(iii) Trademarks

Trademarks that are acquired by the Group are stated at cost less impairment losses (see Note 2(u)). Trademarks are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite useful lives. Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives with both the period and method of amortisation reviewed annually.

(iv) Customer relationship

Customer relationship is stated at cost less accumulated amortisation and impairment losses (see Note 2(u)). Amortisation of customer relationship with finite useful lives is charged to profit or loss on a straight-line basis over the estimated useful lives of 2 years, with both the period and method of amortisation reviewed annually.

2. Significant Accounting Policies (Continued)

(j) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using specific identification method or first-in, first-out cost formula for inventories of garment manufacturing segment and the weighted average cost formula for inventories of brands business segment. Cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Accounts and other receivables

Accounts and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 2(v)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(m) Derivative financial instruments and hedging activities

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(ii) Hedge of net investments in foreign operations

The portion of the gain or loss on remeasurement to fair value of an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised in other comprehensive income and accumulated separately in equity in the exchange reserve until the disposal of the foreign operation, at which time the cumulative gain or loss is reclassified from equity to profit or loss. The ineffective portion is recognised immediately in profit or loss.

(n) Accounts and other payables

Accounts and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which cash they are stated at cost.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. When time value of money is material, provisions are stated at present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefit is remote.

2. Significant Accounting Policies (Continued)

(p) Employee benefits

(i) Short term employee benefits and contribution to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contribution to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by the employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense (income) on the net defined benefit liability (asset) are recognised in profit or loss in employee benefit expense. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee benefit expense with a corresponding increase in share option reserve within equity. The fair value is measured at grant date using the Trinomial valuation model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(iv) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

2. Significant Accounting Policies (Continued)

(q) Income tax (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Interest-bearing borrowings and borrowing costs

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value is recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Borrowing costs are expensed in the period in which they are incurred.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Service income

Service fees are recognised when the related services are provided. Service fees exclude value added tax or other sales taxes.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(t) Operating lease charge

Leases which do not transfer substantially all the risks and rewards of ownership of assets to the Group are classified as operating leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2. Significant Accounting Policies (Continued)

(u) Impairment of investments in subsidiaries, investment in an associate and non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– investments in subsidiaries in the Company's statement of financial position;

– investment in an associate;

– property, plant and equipment;

– leasehold land and land use rights;

– intangible assets; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a CGU).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(v) Impairment of receivables

Current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of accounts receivable and bills receivable, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against accounts receivable and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(w) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2. Significant Accounting Policies (Continued)

(x) Financial guarantees

A financial guarantee (a type of insurance contract) is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

The Group does not recognise liabilities for financial guarantees at inception, but performs a liability adequacy test at the end of each reporting period by comparing its net liability regarding the financial guarantee with the amount that would be required if the financial guarantee were to result in a present legal or constructive obligation. If the liability is less than the amount of the present legal or constructive obligation, the entire difference is recognised immediately in profit or loss.

(y) Related parties

(a) A person, or a close member of that person's family, is related to the Group if 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 the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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).

(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 Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. Critical Accounting Estimates and Judgements

Note 16, 27 and 32 contain information about the assumptions and their risk factors relating to impairment assessment of a trademark, retirement benefits and other post retirement obligations and fair value of share options granted. Other key sources of estimation uncertainty are as follows:

(a) Useful lives, residual values and depreciation of property, plant and equipment

Management of the Group determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

3. Critical Accounting Estimates and Judgements (Continued)

(b) Estimated impairment of non-financial assets, including goodwill and trademarks

The Group assesses whether non-financial assets including goodwill and trademarks have suffered any impairment in accordance with the accounting policy stated in Note 2(u). The recoverable amounts of non-financial assets including goodwill and trademarks have been determined based on the greater of value in use and fair value less costs of disposal. These calculations require the use of judgement and estimates, in particular of future revenues or cash flows. Management has performed impairment assessment on the property, plant and equipment, goodwill and trademarks and concluded that no impairment is necessary to be made as at 31 December 2017. Management believes that any reasonable possible deviation from any of these assumptions would not cause the aggregate carrying amounts of CGUs to exceed their recoverable amounts.

(c) Current and deferred taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters are different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax assets and liabilities in the period in which such determinations are made.

Deferred tax assets relating to temporary differences and tax losses are recognised when management expects it is probable that future taxable profits will be available to utilise against the temporary differences or tax losses. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets in the period in which such estimates have been changed.

(d) Estimated impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of the receivables. Provisions are applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of receivables requires the use of judgement and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of receivables in the period in which such estimates have been changed.

(e) Estimated write-down of inventories to net realisable value

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-down on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-down requires the use of judgement and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of inventories in the period in which such estimates have been changed.

4. Revenue and Segment Information

(a) Revenue

The principal activities of the Group are (i) garment manufacturing, and (ii) brands business.

Revenue represents the fair value of the consideration received or receivable from products sold, excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(b) Segment information

Reportable segments are reported in a manner consistent with internal reports of the Group that are regularly reviewed by the chief operating decision makers (the Chief Executive Officer and Senior Management collectively) in order to assess performance and allocate resources. The Group manages its business by business units, which are organised by business lines and geography. The Group identified two reportable segments: (i) garment manufacturing, and (ii) brands business. The chief operating decision makers assess the performance of the reportable segments and allocate resources between segments based on the measure of profit or loss generated. This measurement basis is equivalent to profit/loss for the year of that reportable segment.

4. Revenue and Segment Information (Continued)

(b) Segment information (Continued)

Segment assets include all tangible, intangible assets and current assets employed by the segments. Segment liabilities include all current liabilities and non-current liabilities managed directly by the segments. Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Inter-segment sales are priced with reference to prices charged to external parties for similar orders. The segment information is as follows:

	Garment manufacturing		Brands business		Unallocated		Total	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Reportable segment revenue	**1,708,701**	1,882,471	**224,785**	377,513	**–**	–	**1,933,486**	2,259,984
Less: Inter-segment revenue	**(10,780)**	(6,329)	**–**	–	**–**	–	**(10,780)**	(6,329)
Revenue	**1,697,921**	1,876,142	**224,785**	377,513	**–**	–	**1,922,706**	2,253,655
Reportable segment profit/(loss) before tax	**18,831**	71,230	**(67,770)**	(79,663)	**(18,247)**	(53,494)	**(67,186)**	(61,927)
Income tax (expense)/credit	**(2,843)**	(11,278)	**(139)**	(276)	**5,188**	(13,130)	**2,206**	(24,684)
Reportable segment profit/(loss) for the year	**15,988**	59,952	**(67,909)**	(79,939)	**(13,059)**	(66,624)	**(64,980)**	(86,611)

	Garment manufacturing		Brands business		Unallocated (Note (i))		Total	
	As at 31 December 2017 HK$'000	As at 31 December 2016 HK$'000	**As at 31 December 2017 HK$'000**	As at 31 December 2016 HK$'000	**As at 31 December 2017 HK$'000**	As at 31 December 2016 HK$'000	**As at 31 December 2017 HK$'000**	As at 31 December 2016 HK$'000
Reportable segment assets	**736,643**	755,941	**368,245**	433,417	**677,623**	687,421	**1,782,511**	1,876,779
Reportable segment liabilities	**284,738**	303,666	**105,814**	138,235	**98,871**	198,905	**489,423**	640,806
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Finance income	**–**	–	**118**	1,915	**4,339**	5,302	**4,457**	7,217
Finance costs	**–**	–	**(1,484)**	(492)	**(2,826)**	(5,450)	**(4,310)**	(5,942)
Amortisation of leasehold land and land use rights	**(300)**	(312)	**–**	–	**(3,204)**	(3,264)	**(3,504)**	(3,576)
Amortisation of intangible assets	**–**	–	**(6,172)**	(23,090)	**–**	–	**(6,172)**	(23,090)
Depreciation on property, plant and equipment	**(30,872)**	(37,494)	**(6,459)**	(10,724)	**(15,675)**	(18,783)	**(53,006)**	(67,001)
Reversal of/(provision for) impairment of receivables, net	**768**	(2,114)	**21**	–	**–**	–	**789**	(2,114)
(Write-down)/reversal of write-down of inventories to net realisable value, net	**(8,820)**	(5,645)	**8,520**	2,040	**–**	–	**(300)**	(3,605)
Additions to non-current assets	**14,110**	11,694	**13,066**	48,626	**940**	2,193	**28,116**	62,513

4. Revenue and Segment Information (Continued)

(b) Segment information (Continued)

The principal activities of the Group are (i) garment manufacturing and (ii) brands business. The Group's revenue is mainly derived from customers located in the People's Republic of China (the "PRC"), the United States of America ("US"), the United Kingdom ("UK") and Canada, while the Group's production facilities, trademark and other assets are located predominantly in the PRC, Luxembourg and Thailand. The PRC includes the Mainland China, Hong Kong and Macau. An analysis of the Group's revenue by location of customers and an analysis of the Group's non-current assets by location of assets are as follows:

	PRC		US		UK		Canada		Other countries		Total	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Revenue	**264,527**	602,522	**529,992**	700,909	**533,731**	566,499	**228,646**	207,940	**365,810**	175,785	**1,922,706**	2,253,655

Included in revenue derived from the PRC was HK$212,335,000 (2016: HK$289,275,000) which was generated in Hong Kong.

For the year ended 31 December 2017, revenue from three (2016: two) customers in the garment manufacturing segment each accounted for more than 10% of the Group's total revenue and they represented approximately 18%, 15% and 11% (2016: 17% and 16%) of the total revenue respectively. Details of concentrations of credit risk arising from customers are set out in Note 33.1(b).

	PRC		Luxembourg		Thailand		Other countries		Total	
	As at 31 December 2017 HK$'000	As at 31 December 2016 HK$'000	**As at 31 December 2017 HK$'000**	As at 31 December 2016 HK$'000	**As at 31 December 2017 HK$'000**	As at 31 December 2016 HK$'000	**As at 31 December 2017 HK$'000**	As at 31 December 2016 HK$'000	**As at 31 December 2017 HK$'000**	As at 31 December 2016 HK$'000
Non-current assets *(Note (ii))*	**368,075**	379,749	**183,378**	160,275	**70,110**	62,571	**62,211**	60,753	**683,774**	663,348

Included in non-current assets located in the PRC was HK$9,928,000 (2016: HK$11,243,000) which was related to assets located in Hong Kong.

Notes:

(i) Unallocated assets and liabilities mainly include centrally-managed cash and bank balances, bank borrowings, land use rights and buildings for corporate purposes.

(ii) Non-current assets exclude deferred tax assets and defined benefit plan assets.

5. Other Income and Other Gains

	2017 HK$'000	2016 HK$'000
Consultancy and transitional services fee income from JW PRC Co *(Note (i))*	**27,603**	70,685
Transitional service fee income from Nautica licensor *(Note (ii))*	**–**	23,265
Government subsidies *(Note (iii))*	**3,171**	4,434
Net loss on disposals of property, plant and equipment	**(1,908)**	(15,319)
Sundry income	**2,124**	4,712
	30,990	87,777

Notes:

(i) Shanghai Tristate Enterprises Co., Ltd., a wholly-owned subsidiary of the Group, provided consultancy and transitional services to Jack Wolfskin Trading (Shanghai) Co., Ltd. ("JW PRC Co") after the early termination of the distribution license for Jack Wolfskin products in the PRC starting from 27 March 2015.

(ii) In July 2016, certain subsidiaries of the Group entered into agreements with relevant Nautica licensor whereby the Group agreed to provide full cooperation to the Nautica licensor in enabling a business transition in relation to the contractual expiry of the Group's license for the distribution of Nautica branded products on 31 December 2016. In consideration of the Group's agreement to provide cooperation for the business transition, the Nautica licensor agreed to pay US$3 million (equivalent to HK$23,265,000) to the Group.

(iii) The Group received HK$3,171,000 (2016: HK$4,434,000) government subsidies from the PRC government during the year ended 31 December 2017. There were no unfulfilled conditions and other contingencies attached to the receipts of these government subsidies. There is no assurance that the Group will continue to receive such government subsidies in the future.

6. Loss from Operations

Loss from operations is stated after charging/(crediting):

	2017 *HK$'000*	2016 *HK$'000*
Amortisation of leasehold land and land use rights	**3,504**	3,576
Amortisation of intangible assets	**6,172**	23,090
Depreciation on property, plant and equipment	**53,006**	67,001
(Reversal of)/provision for impairment of receivables, net	**(789)**	2,114
Cost of inventories *(Note 19)*	**1,500,872**	1,724,106
Employee benefit expenses *(Note 11)*	**640,147**	753,063
Minimum operating lease payments in respect of land and buildings	**33,381**	78,238
Contingent operating lease payments in respect of land and buildings	**554**	1,835
Net exchange (gain)/loss	**(3,475)**	3,269
Auditor's remuneration		
Audit services	**3,340**	2,974
Others	**735**	799

7. Finance Income/Finance Costs

	2017 *HK$'000*	2016 *HK$'000*
Finance income		
Interest income from bank deposits	**4,339**	5,302
Imputed interest on long-term rental deposits	**118**	–
Imputed interest on other receivable from an entity in the PRC	**–**	1,915
	4,457	7,217
Finance costs		
Interest on bank borrowings	**2,826**	5,450
Imputed interest on license fees payable	**1,484**	492
	4,310	5,942

8. Income Tax Credit/(Expense)

	2017 *HK$'000*	2016 *HK$'000*
Current income tax		
Hong Kong profits tax	**(337)**	(5,370)
Non-Hong Kong tax	**(2,352)**	(24,026)
Over-provisions of prior years	**358**	15,363
	(2,331)	(14,033)
Deferred tax	**4,537**	(10,651)
	2,206	(24,684)

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

The reconciliation between tax credit/(expense) and accounting loss at applicable tax rates as follows:

	2017 *HK$'000*	2016 *HK$'000*
Loss before tax	**(67,186)**	(61,927)
Notional tax on loss before taxation calculated at statutory tax rate of 16.5%	**11,086**	10,218
Effect of different tax rates in other jurisdictions	**1,191**	3,824
Withholding tax	**3,187**	1,016
Tax effect of non-taxable income	**3,365**	2,017
Tax effect of non-deductible expenses	**(2,274)**	(6,897)
Tax effect of previously unrecognised tax losses	**4,510**	691
Reversal of previously recognised temporary difference	**1,028**	(27,309)
Tax effect of tax losses not recognised	**(20,245)**	(23,607)
Over-provisions of prior years	**358**	15,363
Income tax credit/(expense)	**2,206**	(24,684)

9. Dividends

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

10. Loss Per Share

(a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to equity shareholders of the Company by the weighted average number of shares in issue for the year.

	2017 HK$'000	2016 HK$'000
Loss attributable to equity shareholders of the Company	**(64,180)**	(84,091)
Weighted average number of ordinary shares in issue	**271,607,253**	271,607,253
Basic loss per share	**HK$(0.24)**	HK$(0.31)

(b) Diluted loss per share

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares granted under the Company's share option scheme.

During the years ended 31 December 2017 and 2016, the conversion of all potential ordinary shares outstanding would have an anti-dilutive effect on the loss per share. Hence, there was no dilutive effect on calculation of the diluted loss per share for the years ended 31 December 2017 and 2016.

11. Employee Benefit Expenses

	2017 HK$'000	2016 HK$'000
Directors' emoluments *(Note 12)*	**7,384**	7,490
Wages, salaries, welfare and other benefits	**601,615**	710,877
Retirement benefits		
– Defined contribution plans	**28,532**	32,678
– Defined benefit plans *(Note 27(b))*	**616**	492
– Long service payment liabilities *(Note 27(c))*	**1,520**	1,109
Share-based compensation expense – share options granted *(Note 32)*	**480**	417
Total employment expenses	**640,147**	753,063

12. Directors' Emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are set out below:

Name	Fees HK$'000	Salaries and other benefits HK$'000	Discretionary bonuses HK$'000	Employer's contribution to retirement benefit schemes HK$'000	2017 Total HK$'000	2016 Total HK$'000
Executive Director:						
Mr. WANG Kin Chung, Peter	–	**5,248**	–	**146**	**5,394**	5,377
Non-Executive Directors:						
Ms. WANG KOO Yik Chun	**70**	**765**	**300**	–	**1,135**	1,176
Ms. MAK WANG Wing Yee, Winnie	**165**	–	–	–	**165**	207
Dr. WANG Shui Chung, Patrick	**112**	–	–	–	**112**	132
Independent Non-Executive Directors:						
Mr. LO Kai Yiu, Anthony	**268**	–	–	–	**268**	268
Mr. James Christopher KRALIK	**206**	–	–	–	**206**	206
Mr. Peter TAN	**104**	–	–	–	**104**	124
	925	**6,013**	**300**	**146**	**7,384**	7,490

13. Five Highest Paid Individuals

Of the five individuals with the highest emoluments, one (2016: one) is a director whose emoluments are disclosed in Note 12. The aggregate of the emoluments in respect of the other four (2016: four) individuals are as follows:

	2017 *HK$'000*	2016 *HK$'000*
Salaries, allowances and other benefits	**8,546**	7,467
Discretionary bonuses	**3,365**	7,427
Employer's contribution to retirement benefit schemes	**345**	323
	12,256	15,217

The emoluments of the four (2016: four) individuals with highest emoluments are within the following bands:

	Number of employees	
	2017	2016
HK$2,500,001 – HK$3,000,000	**2**	–
HK$3,000,001 – HK$3,500,000	**2**	2
HK$4,000,001 – HK$4,500,000	**–**	2
	4	4

14. Property, Plant and Equipment

	Freehold land+ HK$'000	Buildings+ HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction-in-progress HK$'000	Total HK$'000
Cost:							
As at 1 January 2016	53,787	458,105	266,715	327,423	22,246	163	1,128,439
Exchange difference	312	(20,833)	(8,515)	(14,080)	(347)	(11)	(43,474)
Additions	–	325	7,448	21,020	805	–	29,598
Acquisition of a subsidiary	–	–	–	283	–	–	283
Reclassification	–	–	–	17	–	(17)	–
Disposals	–	(20,650)	(18,602)	(45,021)	(1,380)	–	(85,653)
As at 31 December 2016	54,099	416,947	247,046	289,642	21,324	135	1,029,193
As at 1 January 2017	**54,099**	**416,947**	**247,046**	**289,642**	**21,324**	**135**	**1,029,193**
Exchange difference	**5,477**	**30,892**	**15,584**	**17,066**	**438**	**10**	**69,467**
Additions	**–**	**60**	**9,445**	**16,494**	**571**	**1,546**	**28,116**
Reclassification	**–**	**–**	**–**	**350**	**–**	**(350)**	**–**
Disposals	**–**	**–**	**(13,816)**	**(14,414)**	**(518)**	**–**	**(28,748)**
As at 31 December 2017	**59,576**	**447,899**	**258,259**	**309,138**	**21,815**	**1,341**	**1,098,028**
Accumulated depreciation:							
As at 1 January 2016	–	251,536	203,924	251,602	18,484	–	725,546
Exchange difference	–	(10,505)	(5,674)	(9,552)	(253)	–	(25,984)
Charge for the year	–	17,474	20,121	27,972	1,434	–	67,001
Written back on disposals	–	(7,735)	(17,087)	(43,364)	(1,333)	–	(69,519)
As at 31 December 2016	–	250,770	201,284	226,658	18,332	–	697,044
As at 1 January 2017	**–**	**250,770**	**201,284**	**226,658**	**18,332**	**–**	**697,044**
Exchange difference	**–**	**20,852**	**13,298**	**12,769**	**388**	**–**	**47,307**
Charge for the year	**–**	**14,806**	**14,934**	**21,940**	**1,326**	**–**	**53,006**
Written back on disposals	**–**	**–**	**(11,486)**	**(13,381)**	**(420)**	**–**	**(25,287)**
As at 31 December 2017	**–**	**286,428**	**218,030**	**247,986**	**19,626**	**–**	**772,070**
Net book value:							
As at 31 December 2017	**59,576**	**161,471**	**40,229**	**61,152**	**2,189**	**1,341**	**325,958**
As at 31 December 2016	54,099	166,177	45,762	62,984	2,992	135	332,149

+ Freehold land is located in Thailand and the Philippines. The buildings are located in the PRC, Thailand, the Philippines and Vietnam.

Depreciation expense of HK$20,988,000 (2016: HK$27,617,000) is included in cost of sales, HK$1,577,000 (2016: HK$5,430,000) is included in selling and distribution expenses and HK$30,441,000 (2016: HK$33,954,000) is included in general and administrative expenses.

15. Leasehold Land and Land Use Rights

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2017 HK$'000	2016 HK$'000
Outside Hong Kong – Medium-term leases	**136,392**	130,863

	2017 HK$'000	2016 HK$'000
Cost:		
As at 1 January	**156,740**	167,348
Exchange difference	**10,988**	(10,608)
As at 31 December	**167,728**	156,740
Accumulated amortisation:		
As at 1 January	**25,877**	23,992
Exchange difference	**1,955**	(1,691)
Charge for the year	**3,504**	3,576
As at 31 December	**31,336**	25,877
Net book value:	**136,392**	130,863

Amortisation of HK$3,504,000 (2016: HK$3,576,000) is included in general and administrative expenses.

16. Intangible Assets

	Goodwill HK$'000	License rights (Note (i)) HK$'000	Trademark (Note (ii)) HK$'000	Customer relationship and others (Note (iii)) HK$'000	Total HK$'000
Cost:					
As at 1 January 2016	20,893	264,788	165,950	–	451,631
Additions	–	25,687	–	436	26,123
Acquisition of a subsidiary	–	–	–	6,509	6,509
Exchange difference	–	–	(5,675)	(162)	(5,837)
As at 31 December 2016	20,893	290,475	160,275	6,783	478,426
As at 1 January 2017	**20,893**	**290,475**	**160,275**	**6,783**	**478,426**
Derecognition *(Note (i))*	**–**	**(264,788)**	**–**	**–**	**(264,788)**
Exchange difference	**–**	**1,801**	**23,103**	**310**	**25,214**
As at 31 December 2017	**20,893**	**27,488**	**183,378**	**7,093**	**238,852**
Accumulated amortisation:					
As at 1 January 2016	20,893	244,916	–	–	265,809
Amortisation	–	19,872	–	3,218	23,090
As at 31 December 2016	20,893	264,788	–	3,218	288,899
As at 1 January 2017	**20,893**	**264,788**	**–**	**3,218**	**288,899**
Derecognition *(Note (i))*	**–**	**(264,788)**	**–**	**–**	**(264,788)**
Amortisation	**–**	**2,647**	**–**	**3,525**	**6,172**
Exchange difference	**–**	**100**	**–**	**135**	**235**
As at 31 December 2017	**20,893**	**2,747**	**–**	**6,878**	**30,518**
Net book value:					
As at 31 December 2017	**–**	**24,741**	**183,378**	**215**	**208,334**
As at 31 December 2016	–	25,687	160,275	3,565	189,527

Amortisation of HK$2,647,000 (2016: HK$19,872,000) is included in the selling and distribution expenses and HK$3,525,000 (2016: HK$3,218,000) is included in general and administrative expenses.

Notes:

(i) License rights

License rights represent capitalisation of the minimum contractual obligation payable to licensors at the time of inception. They are recognised based on discount rates equal to the Group's weighted average external borrowing rates of approximately 5.5% per annum at the dates of inception.

During the year ended 31 December 2016, the Group entered into a 10 years (with conditional option to renew for an additional 10 years by the Group) license agreement for the sourcing and distribution of ACBC brand footwear products in the PRC. The relating minimum contractual obligation payable to the licensor is recognised in license fees payable.

On 1 January 2017, licence rights and related accumulated amortisation of HK$264,788,000 were derecognised after the contractual expiry of the Group's license for the distribution of Nautica branded products on 31 December 2016 (Note 5(ii)).

(ii) Trademark

It represents C.P. Company trademark which is regarded as having an indefinite useful life and there is no foreseeable limit to the period over which it is expected to generate cash flows for the Group as it is expected that the value will not be reduced through usage and the cost of renewal of period for its use is negligible.

Impairment test for CGU containing trademark

The trademark is allocated to a CGU under brands business segment. The recoverable amount of the CGU was based on value in use calculations. These calculations use cash flow projections based on latest forecasts covering a 8-year (2016: 10-year) period at underlying growth rates that exceed historical rates to reflect the start-up nature of the business. Cash flows beyond the 8-year (2016: 10-year) period are extrapolated using the estimated rate of 2% (2016: 2%). The following key assumptions have been used for the value in use calculations.

Discount rate

The cash flows are discounted using a risk-adjusted pre-tax discount rate of 21.5% (2016: 18.1%) which was derived from the post-tax discount rate of 16.4% (2016: 15.6%).

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount measurement is based would not cause the carrying amount to exceed its recoverable amount.

(iii) Customer relationship

In March 2016, the Group acquired 99% equity interest of the distributor of C.P. Company products in Japan at a consideration of HK$5,327,000. Customer relationship acquired was amounted to HK$6,509,000. The customer relationship has been fully amortised as at 31 December 2017.

17. Other Long-Term Assets

	2017 HK$'000	2016 HK$'000
Advance to an employee *(Note 35(b)(ii))*	**4,705**	5,413
Long-term rental, utilities and other deposits	**5,254**	3,296
Club debentures	**2,100**	2,100
Other long term assets	**649**	–
	12,708	10,809

18. Interests in an Associate

Particulars of the associate, which is an unlisted corporate entity, as at 31 December 2017 and 2016 are as follows:

Name of associate	Place of incorporation/ establishment	% interest held by a subsidiary	Nature of the relationship	Measurement method
MAC International Sarl	Morocco	50%	*Note*	Equity

Note:

MAC International Sarl is a private company which is inactive and under liquidation during the years ended 31 December 2017 and 2016. There is no quoted market price available for the shares of MAC International Sarl. There are no contingent liabilities relating to the Group's interest in an associate. The associate does not have a significant impact on the Group's results of operations and financial position in 2017 and 2016.

19. Inventories

(a) Inventories in the consolidated statement of financial position comprise:

	2017 ***HK$'000***	2016 *HK$'000*
Raw materials	**56,044**	60,038
Work-in-progress	**110,736**	109,482
Finished goods	**42,977**	60,116
Goods in transit	**22,012**	12,891
	231,769	242,527

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Carrying amount of inventories sold	**1,500,572**	1,720,501
Write down of inventories	**16,515**	8,853
Reversal of write-down of inventories	**(16,215)**	(5,248)
	1,500,872	1,724,106

The reversal of write-down of inventories made in prior years was the result of use of written-down raw materials in the production process and sales of written-down finished goods.

20. Accounts Receivable and Bills Receivable

As of the end of the reporting period, the ageing of accounts receivable and bills receivable based on invoice date is as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Less than 3 months	**259,220**	273,067
3 months to 6 months	**5,644**	5,384
Over 6 months	**1,764**	2,415
	266,628	280,866
Less: Provision for impairment	**(1,764)**	(2,415)
	264,864	278,451

The majority of accounts receivable are with customers having an appropriate credit history and are on open account. The Group grants its customers credit terms mainly ranging from 30 to 60 days. All of the accounts receivable and bills receivable are expected to be recovered within one year.

The carrying amounts of the accounts receivable and bills receivable approximate their fair values. The maximum exposure to credit risk is the fair value of the above receivables. The Group does not hold any collateral as security.

As at 31 December 2017, accounts receivable and bills receivable of HK$145,207,000 (2016: HK$140,198,000) were neither past due nor impaired. Accounts receivable and bills receivable of HK$119,657,000 (2016: HK$138,253,000) were past due but considered not to be impaired. These relate to a number of customers for whom there is no history of default. The ageing of these receivables based on invoice date net of provision for impairment is as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Less than 3 months	**114,013**	132,869
3 months to 6 months	**5,644**	5,384
	119,657	138,253

As at 31 December 2017, accounts receivable and bills receivable over 6 months of HK$1,764,000 (2016: HK$2,415,000) were considered impaired and had been fully provided for. The risk of accounts receivable and bills receivable that are neither past due nor impaired as at 31 December 2017 becoming impaired is considered low as most of the balances related to customers with no history of default.

Movements of provision for impairment of accounts receivable and bills receivable are as follows:

	2017 ***HK$'000***	2016 *HK$'000*
At 1 January	**2,415**	1,031
(Reversal of)/provision for impairment	**(789)**	2,114
Receivables written off during the year as uncollectible	**138**	(730)
At 31 December	**1,764**	2,415

20. Accounts Receivable and Bills Receivable

(Continued)

The provision for impaired receivables has been included in general and administrative expenses. Provision for impairment in respect of accounts receivable and bills receivable are recorded using an allowance account. The allowance account and the accounts receivable and bills receivable are directly written off when there is no expectation of recovery.

The carrying amounts of accounts receivable and bills receivable are denominated in the following currencies:

	2017 *HK$'000*	2016 *HK$'000*
United States dollars	**231,326**	236,686
Renminbi	**9,228**	17,697
Euro	**19,765**	13,285
Pound Sterling	**441**	4,631
Others	**4,104**	6,152
	264,864	278,451

21. Forward Foreign Exchange Contracts

	2017 *HK$'000*	2016 *HK$'000*
Cash flow hedges *(Note (i))*		
Included in:		
– Non-current assets	**382**	–
– Current assets	**913**	316
	1,295	316
Included in:		
– Non-current liabilities	**1,399**	36,689
– Current liabilities	**6,239**	19,629
	7,638	56,318

The maximum exposure to credit risk is the fair value as stated above of the forward foreign exchange contracts under current and non-current assets in the consolidated statement of financial position. The outstanding forward foreign exchange contracts with maturity dates within one year are classified as current assets and liabilities, while those with maturity dates more than one year are classified as non-current assets and liabilities. The financial risk management on fair value estimation is set out in Note 33.3.

Notes:

(i) Forward foreign exchange contracts – cash flow hedges

As at 31 December 2017, the notional principal amount of the outstanding forward foreign exchange contracts under cash flow hedges was HK$327,561,000 (2016: HK$484,489,000). The hedges related to PRC subsidiaries' highly probable forecasted processing income denominated in foreign currencies and a European subsidiary's highly probable forecasted sales revenue in Pound Sterling, of which notional principal of HK$132,867,000 (2016: HK$267,548,000) relates to transactions expected to occur more than 12 months and notional principal of HK$194,694,000 (2016: HK$216,941,000) relates to transactions expected to occur within 12 months.

Gains and losses of forward foreign exchange contracts recorded in the hedging reserve in the consolidated statement of comprehensive income for the year ended 31 December 2017 are to be recognised in the consolidated statement of profit or loss when the underlying hedged transactions affect the consolidated statement of profit or loss.

The forward foreign exchange contracts entered during 2017 and 2016 were determined to be effective hedges and no gain or loss relating to the ineffective portion was recognised in the consolidated statement of profit or loss.

(ii) Forward foreign exchange contracts – net investment hedge

During the period from March 2008 to March 2010, the Group entered into forward foreign exchange contracts to hedge against its net investment in a subsidiary group in the UK. Pursuant to the Group's hedging strategy, the Group ceased hedging the subsidiary group from March 2010. The cumulative gains and losses of the forward foreign exchange contracts which were recognised in the translation reserve when the hedge was effective, shall remain in the translation reserve and are to be recognised in the consolidated statement of profit or loss when the foreign subsidiary group is disposed.

22. Prepayments and Other Receivables

	2017 *HK$'000*	2016 *HK$'000*
Other receivable from an entity in the PRC *(Note (i))*	**28,155**	88,433
Other receivable from Nautica licensor *(Note (ii))*	**–**	20,708
Advance payments for purchases of inventories	**7,757**	3,488
Rental deposits	**4,074**	11,378
Value added tax and custom duties recoverable	**18,718**	8,749
Prepaid operating expenses	**10,851**	12,169
Others	**5,154**	9,902
	74,709	154,827

Notes:

(i) Other receivable from an entity in the PRC represents consultancy and transitional services fee income receivable from JW PRC Co (Note 5(i)).

(ii) Other receivable from Nautica licensor represents receivables for income from transitional services upon expiry of a license agreement and transfer of inventories and property, plant and equipment.

(iii) The carrying amounts of other receivables approximate their fair values. The maximum exposure to credit risk is the fair value of the above items. The Group does not hold any collateral as security on prepayments and other receivables.

23. Cash and Bank Balances

	2017 **HK$'000**	2016 *HK$'000*
Short-term bank deposits	**176,931**	126,598
Cash at bank and on hand	**281,569**	248,577
Cash and cash equivalents in the consolidated cash flow statement	**458,500**	375,175
Short-term bank deposits, with maturities over 3 months	**25,180**	120,676
Bank structured deposits	**29,310**	27,390
Cash and bank balances in the consolidated statement of financial position	**512,990**	523,241

Bank structured deposits are principal protected hybrid instruments that include a non-derivative Renminbi deposits host contract and an embedded derivative. The embedded derivative causes the cash flows that otherwise would be required by the contract to be modified according to the movement of a foreign exchange rate.

The embedded derivative is separated from the host contract and accounted for as a derivative at fair value while the host contract is accounted for as a financial asset at amortised cost. At the date of inception of the contract and at 31 December 2017, the fair value of the embedded derivative was insignificant.

The carrying amounts of cash and bank balances are denominated in the following currencies:

	2017 **HK$'000**	2016 *HK$'000*
United States dollars	**275,255**	295,954
Renminbi	**173,254**	175,769
Hong Kong dollars	**21,581**	22,595
Euro	**5,888**	5,411
Pound Sterling	**9,973**	4,178
Others	**27,039**	19,334
Total	**512,990**	523,241

The Group's cash and bank balances denominated in Renminbi were deposited with banks in Hong Kong and the PRC. The conversion of these Renminbi denominated balances into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

24. Accounts Payable and Bills Payable

As of the end of the reporting period, the ageing of accounts payable and bills payable based on invoice date is as follows:

	2017 **HK$'000**	2016 *HK$'000*
Less than 3 months	**97,955**	80,382
3 months to 6 months	**2,669**	4,837
Over 6 months	**4,913**	2,910
	105,537	88,129

The majority of payment terms with suppliers are within 60 days. All of the accounts payable and bills payable are expected to be settled within one year or are on demand.

The carrying amounts of accounts payable and bills payable approximate their fair values.

The carrying amounts of accounts payable and bills payable are denominated in the following currencies:

	2017 **HK$'000**	2016 *HK$'000*
United States dollars	**59,547**	42,163
Euro	**22,496**	27,333
Hong Kong dollars	**17,481**	14,024
Renminbi	**4,215**	2,225
Others	**1,798**	2,384
	105,537	88,129

25. Accruals and Other Payables

Accruals and other payables mainly consist of accrued employee benefit expenses and other operating expenses. All of the accruals and other payables are expected to be settled within one year.

26. Bank Borrowings

As at 31 December 2017, the Group's bank borrowings were unsecured and covered by corporate guarantees given by the Company. The bank borrowings were due for repayment within three months at the end of the reporting period. Bank borrowings are denominated in United States dollars and bore interest at fixed rates. The interest rates of the bank borrowings ranged from 2.7% to 2.9% per annum (2016: 1.9% to 2.1% per annum).

The fair value of the Group's bank borrowings equal their carrying amount, as the impact of discounting is not significant due to their short-term maturity.

27. Retirement Benefits and Other Post Retirement Obligations

	2017 HK$'000	2016 HK$'000
Defined benefit plans *(Note (b))*	**(7,484)**	(7,735)
Long service payment liabilities *(Note (c))*	**24,215**	19,812
	16,731	12,077
Included in non-current assets	**(7,769)**	(7,735)
Included in non-current liabilities	**24,500**	19,812
	16,731	12,077

Notes:

(a) Defined contribution plans

The Group operates/participates in the following defined contribution plans:

(i) A defined contribution scheme for employees in Hong Kong, under which the Group and its employee each contribute 5% of the employee's salaries. The forfeited contributions made by the Group and the related accrued interest are used to reduce the Group's future employer contribution.

(ii) The Mandatory Provident Fund Scheme for employees in Hong Kong, under which the Group and its employee each makes monthly contribution to the scheme at 5% of the qualifying earnings of the employee, subject to a cap of monthly relevant income of HK$30,000.

(iii) The Group's subsidiaries in the Mainland China contribute 10% to 22% of the basic salaries of their employees to retirement schemes operated by municipal governments. Under the schemes, the employees also contribute 8% of their basic salaries.

(iv) The Group's subsidiaries in Thailand operate defined contribution plans, under which the Group generally contributes 5% of participating employees' salaries and the employees contribute 5% of their salaries.

(v) From 1 July 2005, the Group's subsidiaries in Taiwan operate defined contribution plans pursuant to the Labour Pension Act as a choice available to their employees. Under the plans, the Group generally contributes 6% of the participating employees' salaries to their personal accounts kept by the Labour Insurance Bureau on a monthly basis. Contributions from employees are on a discretionary basis.

(vi) Contributions to the defined contribution schemes of other countries are at various funding rates that are in accordance with the local practice and regulations. Contributions relating to the defined contribution schemes are charged to profit or loss as incurred.

Contribution to the above defined contribution plans other than (i) vest immediately. Other than the mandatory contributions made by the Group under the respective defined contribution plans, the Group has no further obligations for the actual pension payments or any post retirement benefits.

(b) Defined benefit plans

The Group operates/participates in the following defined benefit plans:

(i) A defined benefit retirement plan is operated by the Group's subsidiaries in the Philippines. The Group bears the full cost of all plan benefits and the plan assets are invested mainly in a fixed income fund through third party trustee. The benefits are based on a prescribed percentage of the final monthly basic salary and the period of credited services.

(ii) A defined benefit retirement scheme is operated by the Group's subsidiaries in Taiwan. The Group bears the full cost of all benefits and the assets for the benefits are invested through the Bank of Taiwan in a balanced portfolio of cash, fixed income and equity investments. The benefits are based on the average monthly salary for the six months immediately preceding the date of cessation of service with the Group.

The latest actuarial valuations of the above plans were performed by BMI Appraisals Limited, an independent professional valuation firm, as at 31 December 2017, using the projected unit credit method. Based on the actuarial reports, the aggregate market value of the plan assets as at 31 December 2017 was HK$22,453,000 (2016: HK$21,931,000), representing approximately 150% (2016: 154%) of the actuarial accrued liabilities at that date.

The amounts recognised in the consolidated statement of financial position are as follows:

	2017 HK$'000	2016 HK$'000
Present value of funded obligations	**14,969**	14,196
Fair value of plan assets	**(22,453)**	(21,931)
Net defined benefit plan assets	**(7,484)**	(7,735)

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amount recoverable in the next twelve months, as future contributions will also relate to future services rendered and future change in actuarial assumptions and market conditions.

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2017 HK$'000	2016 HK$'000
Current service cost	**737**	634
Net interest income on net defined benefit plan assets	**(121)**	(142)
Total, included in employee benefit expenses	**616**	492

27. Retirement Benefits and Other Post Retirement Obligations (Continued)

(b) Defined benefit plans (Continued)

Changes in the present value of the defined benefit obligations are as follows:

	2017 HK$'000	2016 HK$'000
As at 1 January	**14,196**	14,092
Current service cost	**737**	634
Interest expense	**500**	456
Remeasurement – actuarial loss/(gain) arising from changes in demographic assumptions	**686**	(156)
Remeasurement – actuarial gain arising from changes in financial assumptions	**(562)**	(40)
Exchange differences	**673**	(261)
Benefits paid by the Group	**(115)**	(142)
Benefits paid by the plans	**(1,146)**	(387)
As at 31 December	**14,969**	14,196

Changes in the fair value of plan assets are as follows:

	2017 HK$'000	2016 HK$'000
As at 1 January	**21,931**	22,135
Interest income	**621**	598
Remeasurement – return on plan assets, excluding amounts included in interest income	**(288)**	(239)
Exchange differences	**1,335**	(176)
Benefits paid by the plan	**(1,146)**	(387)
As at 31 December	**22,453**	21,931

The principal actuarial assumptions used are as follows:

	2017	2016
Discount rate	**1% to 6%**	1% to 6%
Expected rate of future salary increase	**3% to 5%**	3% to 5%

The Group expects not to contribute to its defined benefit plans in 2018. The weighted average duration of the defined benefit obligations is 10 years (2016: 10 years).

The major categories of plan assets as a percentage of total plan assets are as follows:

	2017	2016
Deposits with financial institutions	**13.2%**	12.1%
Bonds	**43.1%**	38.2%
Stocks	**20.7%**	20.4%
Other assets	**23.0%**	29.3%
Represented by:		
– Assets have a quoted market price	**64%**	59%
– Assets do not have a quoted market price	**36%**	41%

The most significant risk facing the defined benefit plans of the Group is market risk including price risk, interest rate risk and foreign exchange risk. Market risk is managed principally through diversification of investments by third party trustees. The long-term strategic asset allocations would also be monitored by third party trustees periodically taking into account of the liability profile of the plans.

The sensitivity of the defined benefit obligations to changes as a result of the changes in the significant actuarial assumptions is:

	Impact on defined benefit obligations		
Principal assumption	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.50%	Decrease by 4.5% (2016: Decrease by 4.6%)	Increase by 4.9% (2016: Increase by 4.9%)
Salary growth rate	0.50%	Increase by 4.9% (2016: Increase by 4.9%)	Decrease by 4.6% (2016: Decrease by 4.6%)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

27. Retirement Benefits and Other Post Retirement Obligations (Continued)

(c) Long service payment liabilities

(i) Under the Hong Kong Employment Ordinance, the Group is obliged in certain circumstances to make long service payments on cessation of employment to certain employees in Hong Kong who have completed at least five years of service with the Group. The amount payable is dependent on the employee's final salary (or, at the option of the employee, the average salary for the 12 months prior to cessation of employment, subject to an average monthly salary of HK$22,500) and years of service, and is reduced by entitlements accrued under the Group's defined contribution retirement scheme.

(ii) Under the Labor Protection Act of Thailand (A.D. 1998), the Group is obliged to make severance pay on cessation of employment to the employees who have been regularly employed by the Group for more than 120 days. The amount payable is dependent on the employee's final salary and years of service. The Group does not set aside any asset for the obligation arising from severance pay.

(iii) Under the labour law of Vietnam, the Group is obliged to make severance pay on cessation of employment to the employees who have been employed by the Group for more than 12 months. The amount payable is dependent on the employee's average salary for the six months prior to the termination and years of service up to 31 December 2008. The Group does not set aside any asset for the obligation arising from severance pay.

The latest actuarial valuations of the Group's major obligations of long service payment liabilities as at 31 December 2017 were carried out by BMI Appraisals Limited, an independent professional valuation firm, using the projected unit credit method.

	2017 **HK$'000**	2016 HK$'000
Liability in the statement of financial position:		
– Present value of unfunded obligations	**24,215**	19,812

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2017 **HK$'000**	2016 HK$'000
Current services cost	**736**	343
Interest cost	**784**	766
Total, included in employee benefit expenses	**1,520**	1,109

Movement in the present value of unfunded obligations:

	2017 **HK$'000**	2016 HK$'000
As at 1 January	**19,812**	21,416
Current service cost	**736**	343
Interest expense	**784**	766
Benefit paid by the Group	**(498)**	(741)
Remeasurement – actuarial loss/(gain) arising from changes in demographic assumptions	**51**	(315)
Remeasurement – actuarial loss/(gain) arising from changes in financial assumptions	**1,394**	(1,772)
Exchange difference	**1,936**	115
As at 31 December	**24,215**	19,812

The principal actuarial assumptions used are as follows:

	2017	2016
Discount rate	**2% to 7%**	2% to 8%
Expected rate of future salary increase	**3% to 5%**	3% to 5%

The weighted average duration of the long service payment liabilities is 12 years (2016: 12 years).

The sensitivity of the present value of unfunded obligations to changes as a result of the changes in the significant assumptions is:

	Impact on present value of unfunded obligations		
Principal assumption	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.50%	Decrease by 5.0% (2016: Decrease by 5.2%)	Increase by 3.8% (2016: Increase by 5.6%)
Salary growth rate	0.50%	Increase by 5.3% (2016: Increase by 5.5%)	Decrease by 5.0% (2016: Decrease by 5.2%)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

28. License Fees Payable

	2017 HK$'000	2016 HK$'000
Within 1 year	**2,376**	749
More than 1 year but less than 2 years	**2,543**	1,471
More than 2 years but less than 5 years	**12,686**	9,857
More than 5 years	**21,181**	24,168
	38,786	36,245
Less: Imputed interest on license fees payable	**(9,797)**	(10,558)
Present value	**28,989**	25,687
Less: Current portion included in accruals and other payables	**(2,376)**	(749)
Non-current portion	**26,613**	24,938
Estimated fair value of:		
– Current portion	**2,376**	749
– Non-current portion	**26,613**	24,938

Note:

License fees payable represents the contractual obligations at the time of recognition. It is recognised based on discount rates of 5.5% per annum at the date of inception of such obligations, which was determined by reference to the Group's weighted average external borrowing rate (Note 16(i)).

The carrying amounts of license fees payable are denominated in Renminbi.

The estimated fair value of the license fees payable as at 31 December 2017 and 2016 was approximate to the carrying value.

29. Deferred Tax Assets/Liabilities

(a) The movements in deferred tax assets and liabilities, without taking into consideration the offsetting of balance with the same tax jurisdiction, are as follows:

Deferred tax assets

	Provisions		Depreciation allowances less than the related depreciation		Tax losses		Total	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
As at 1 January	**4,503**	32,223	**3,423**	4,263	**2,366**	3,600	**10,292**	40,086
Exchange differences	**589**	1,264	**30**	8	**4**	–	**623**	1,272
(Charged)/credited to profit or loss	**(11)**	(28,579)	**71**	(848)	**(865)**	(1,234)	**(805)**	(30,661)
Credited/(charged) to other comprehensive income	**194**	(405)	**–**	–	**–**	–	**194**	(405)
As at 31 December	**5,275**	4,503	**3,524**	3,423	**1,505**	2,366	**10,304**	10,292

Deferred tax assets are recognised for tax losses carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2017, the Group did not recognise deferred tax assets of HK$85,665,000 (2016: HK$70,635,000) for tax losses that can be carried forward against future taxable income. Cumulative tax losses of HK$93,463,000 (2016: HK$51,145,000) can be carried forward indefinitely; cumulative tax losses of HK$158,696,000 (2016: HK$143,724,000) will expire within the next five years; and cumulative tax losses of HK$132,374,000 (2016: HK$113,677,000) will expire after more than 5 years.

29. Deferred Tax Assets/Liabilities (Continued)

Deferred tax liabilities

	Depreciation allowances in excess of the related depreciation		Withholding tax for distribution of retained earnings of the PRC and overseas subsidiaries		Fair value adjustments on business combination		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
As at 1 January	**812**	5,823	**26,343**	41,671	**8,789**	8,660	**35,944**	56,154
Exchange differences	**–**	(535)	**(501)**	153	**857**	72	**356**	(310)
(Credited)/charged to profit or loss	**(300)**	(4,476)	**(5,049)**	(15,591)	**7**	57	**(5,342)**	(20,010)
(Credited)/charged to other comprehensive income	**–**	–	**(102)**	110	**–**	–	**(102)**	110
As at 31 December	**512**	812	**20,691**	26,343	**9,653**	8,789	**30,856**	35,944

(b) Reconciliation to the consolidated statement of financial position:

	2017	2016
	HK$'000	*HK$'000*
Net deferred tax asset recognised in the consolidated statement of financial position	**4,669**	5,782
Net deferred tax liability recognised in the consolidated statement of financial position	**(25,221)**	(31,434)
	(20,552)	(25,652)

30. Share Capital

	2017 **HK$'000**	2016 HK$'000
Authorised: 500,000,000 (2016: 500,000,000) shares of HK$0.10 each	**50,000**	50,000

Issued and fully paid ordinary share capital:

	2017		2016	
	Number of shares	***HK$'000***	Number of shares	*HK$'000*
As at 1 January and 31 December	**271,607,253**	**27,161**	271,607,253	27,161

31. Reserves

The reconciliation between the opening and closing balances of each components of the Group's consolidated equity is set out below:

	Share premium *HK$'000*	Capital reserve *HK$'000*	Statutory reserves *HK$'000*	Translation reserve *HK$'000*	Share option reserve *HK$'000*	Remeasure-ments reserve *HK$'000*	Hedging reserve *HK$'000*	Contributed surplus *HK$'000*	General reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
As at 1 January 2017	14,449	113,373	97,601	20,266	1,509	–	(56,002)	265,630	117,413	636,721	1,210,960
Comprehensive income											
Loss for the year	–	–	–	–	–	–	–	–	–	(64,180)	(64,180)
Other comprehensive income											
Net fair value gains on cash flow hedges	–	–	–	–	–	–	49,658	–	–	–	49,658
Remeasurements of defined benefit plans and long service payment liabilities	–	–	–	–	–	(1,857)	–	–	–	–	(1,857)
Deferred tax credited to other comprehensive income *(Note 29)*	–	–	–	–	–	296	–	–	–	–	296
Currency translation differences	–	–	–	73,518	–	–	–	–	–	–	73,518
Total comprehensive income	–	–	–	73,518	–	(1,561)	49,658	–	–	(64,180)	57,435
Transactions with owners											
Transfer	–	–	11	–	–	1,561	–	–	–	(1,572)	–
Share option scheme – value of employee services	–	–	–	–	480	–	–	–	–	–	480
Share options granted to employee lapsed	–	–	–	–	(331)	–	–	–	–	331	–
Total transactions with owners	–	–	11	–	149	1,561	–	–	–	(1,241)	480
As at 31 December 2017	14,449	113,373	97,612	93,784	1,658	–	(6,344)	265,630	117,413	571,300	1,268,875

31. Reserves (Continued)

	Share premium *HK$'000*	Capital reserve *HK$'000*	Statutory reserves *HK$'000*	Translation reserve *HK$'000*	Share option reserve *HK$'000*	Remeasure-ments reserve *HK$'000*	Hedging reserve *HK$'000*	Contributed surplus *HK$'000*	General reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
As at 1 January 2016	14,449	113,497	96,626	68,869	1,584	–	(43,463)	265,630	117,413	719,766	1,354,371
Comprehensive income											
Loss for the year	–	–	–	–	–	–	–	–	–	(84,091)	(84,091)
Other comprehensive income											
Net fair value losses on cash flow hedges	–	–	–	–	–	–	(12,539)	–	–	–	(12,539)
Remeasurements of defined benefit plans and long service payment liabilities	–	–	–	–	–	2,044	–	–	–	–	2,044
Deferred tax charged to other comprehensive income *(Note 29)*	–	–	–	–	–	(515)	–	–	–	–	(515)
Currency translation differences	–	–	–	(48,603)	–	–	–	–	–	–	(48,603)
Total comprehensive income	–	–	–	(48,603)	–	1,529	(12,539)	–	–	(84,091)	(143,704)
Transactions with owners											
Transfer	–	–	975	–	–	(1,529)	–	–	–	554	–
Acquisition of non-controlling interest	–	(124)	–	–	–	–	–	–	–	–	(124)
Share option scheme – value of employee services	–	–	–	–	417	–	–	–	–	–	417
Share options granted to employee lapsed	–	–	–	–	(492)	–	–	–	–	492	–
Total transactions with owners	–	(124)	975	–	(75)	(1,529)	–	–	–	1,046	293
As at 31 December 2016	14,449	113,373	97,601	20,266	1,509	–	(56,002)	265,630	117,413	636,721	1,210,960

31. Reserves (Continued)

(a) Share premium

The application of share premium account is governed by the Company's Bye-Laws and the Bermuda Companies Act 1981.

(b) Capital reserve

Capital reserve mainly relates to the amount transferred from retained earnings in connection with a declaration of stock dividend by a subsidiary during the years ended 31 December 2000 and 2015.

(c) Statutory reserve and general reserve

Subsidiaries incorporated in Taiwan are required to set aside 10% of their net profit each year to reserve, according to Company Law in Taiwan. This appropriation is made in the following year until the accumulated reserve equals the paid-in capital. Such reserve can be used to offset a deficit or, when it has reached 50% of the paid-in capital, up to 50% thereof may be transferred to capital. The amount set aside is included under statutory reserve. During the year ended 31 December 2017, subsidiaries in Taiwan have transferred HK$11,000 (2016: HK$121,000) to statutory reserves.

The laws and regulations in the Mainland China require wholly foreign owned enterprises established in the Mainland China to provide for statutory reserves which are appropriated from net profit, based on profit reported in the statutory accounts. Certain subsidiaries in the Mainland China are required to allocate at least 10% of their after-tax profit to statutory reserves until the reserves have reached 50% of their registered capital. Statutory reserves can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. During the year ended 31 December 2017, subsidiaries in the Mainland China have transferred HK$Nil (2016: HK$854,000) to statutory reserves.

General reserve mainly relates to the profit set aside by the Company according to the Company's Bye-Laws.

(d) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations and foreign exchange differences arising from hedges of the net investment in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Notes 2(f) and 2(m)(ii).

(e) Share option reserve

Share option reserve comprises the fair value at the grant date of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based compensation in Note 2(p)(iii).

(f) Remeasurements reserve

Remeasurements reserve is dealt with in accordance with the accounting policy adopted for the remeasurements of the net defined benefit liability as set out in Note 2(p)(ii).

(g) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in Note 2(m)(i).

(h) Contributed surplus

Contributed surplus represents the excess in value of shares acquired in consideration for the issue of the Company's shares over the nominal value of those shares issued. Under the Bermuda Companies Act 1981, contributed surplus is distributable.

32. Share Option Schemes

The 2007 Share Option Scheme was approved to be terminated at the annual general meeting of the Company on 6 June 2016. Upon termination, no further share options can be offered under the 2007 Share Option Scheme but all outstanding share options granted thereunder shall continue to be valid and exercisable in accordance with the terms of the 2007 Share Option Scheme. The 2016 Share Option Scheme was adopted by the shareholders of the Company at the annual general meeting held on 6 June 2016. Details of the 2007 Share Option Scheme and 2016 Share Option Scheme are set out in the "Report of the Directors" section of this Annual Report.

Under the 2007 Share Option Scheme (before termination) and the 2016 Share Option Scheme, share options may be granted from time to time as determined by the Board, to directors and employees of the Group. The grantee is required to pay HK$1.00 upon acceptance of the options. The subscription price for the shares of the Company, which are the subject of the options, shall not be less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price and timing for the exercise of the option will be determined by the Board at the time the option is offered. The options may only be exercised if the grantee remains a director or an employee of the Group. The Group has no legal or constructive obligations to repurchase or settle these options in cash.

32. Share Option Schemes (Continued)

The share options outstanding under the 2007 Share Option Scheme as at the end of the year have the following vesting and expiry dates:

		Number of share options			
Date of grant	Participant	At 31 December 2017	At 31 December 2016	Exercise price per share	Exercisable period
18 June 2012	Employees (in aggregate)	**–**	80,000	HK$5.06	18 June 2012 – 17 June 2017
		–	80,000	HK$5.06	18 June 2013 – 17 June 2017
		–	80,000	HK$5.06	18 June 2014 – 17 June 2017
		–	80,000	HK$5.06	18 June 2015 – 17 June 2017
3 June 2013	Employees (in aggregate)	**104,000**	104,000	HK$3.92	3 June 2013 – 2 June 2018
		104,000	104,000	HK$3.92	3 June 2014 – 2 June 2018
		104,000	104,000	HK$3.92	3 June 2015 – 2 June 2018
		104,000	104,000	HK$3.92	3 June 2016 – 2 June 2018
9 June 2014	Employees (in aggregate)	**106,000**	106,000	HK$3.10	9 June 2014 – 8 June 2019
		106,000	106,000	HK$3.10	9 June 2015 – 8 June 2019
		106,000	106,000	HK$3.10	9 June 2016 – 8 June 2019
		106,000	106,000	HK$3.10	9 June 2017 – 8 June 2019
8 June 2015	Employees (in aggregate)	**135,000**	135,000	HK$2.97	8 June 2015 – 7 June 2020
		135,000	135,000	HK$2.97	8 June 2016 – 7 June 2020
		135,000	135,000	HK$2.97	8 June 2017 – 7 June 2020
		135,000	135,000	HK$2.97	8 June 2018 – 7 June 2020
9 May 2016	Employees (in aggregate)	**141,000**	141,000	HK$2.28	9 May 2016 – 8 May 2021
		141,000	141,000	HK$2.28	9 May 2017 – 8 May 2021
		141,000	141,000	HK$2.28	9 May 2018 – 8 May 2021
		141,000	141,000	HK$2.28	9 May 2019 – 8 May 2021
	Total	**1,944,000**	2,264,000		

The share options outstanding under the 2016 Share Option Scheme as at the end of the year have the following vesting and expiry dates:

		Number of share options			
Date of grant	Participant	At 31 December 2017	At 31 December 2016	Exercise price per share	Exercisable period
5 June 2017	Employees (in aggregate)	**239,000**	–	HK$1.68	5 June 2017 – 4 June 2022
		239,000	–	HK$1.68	5 June 2018 – 4 June 2022
		239,000	–	HK$1.68	5 June 2019 – 4 June 2022
		239,000	–	HK$1.68	5 June 2020 – 4 June 2022
	Total	**956,000**	–		

32. Share Option Schemes (Continued)

Detailed movements of the share options granted pursuant to the 2007 Share Option Scheme and the 2016 Share Option Scheme during the year ended 31 December 2017 are as follows:

	2017		2016	
	Average exercise price per share *HK$*	**Number of options**	Average exercise price per share *HK$*	Number of options
As at 1 January	**3.29**	**2,264,000**	3.70	2,120,000
Granted	**1.68**	**956,000**	2.28	564,000
Lapsed	**5.06**	**(320,000)**	4.01	(420,000)
As at 31 December	**3.83**	**2,900,000**	3.29	2,264,000
Exercisable at 31 December	**3.14**	**1,766,000**	3.66	1,465,000

The options outstanding at 31 December 2017 had a weighted average remaining contractual life of 2.84 years (2016: 2.69 years).

The fair value of options granted during the year of 2017 determined using the Trinomial valuation model was HK$0.56 per option (2016: HK$0.77 per option). The significant inputs into the model are as follows:

	Year in which share options granted	
	2017	2016
Share price at the grant date	**HK$1.68**	HK$2.28
Exercise price	**HK$1.68**	HK$2.28
Dividend yield	**0%**	0%
Volatility	**38%**	39%
Annual risk-free interest rate	**1%**	1%

The volatility at the grant date, which measured the standard deviation of expected share price returns, is based on statistics of 260-week historical volatilities of comparable companies within the industry. The aggregate fair value of the above options granted during the year amounted to HK$534,000 (2016: HK$435,000) is to be recognised as employee benefit expense over the vesting periods together with a corresponding increase in equity. Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

The total amount of employee benefit expense recognised in the consolidated statement of profit or loss for the year ended 31 December 2017 in relation to the 2007 Share Option Scheme and 2016 Share Option Scheme amounted to HK$193,000 (2016: HK$417,000) and HK$287,000 (2016: HK$Nil) respectively.

33. Financial Risk Management

33.1 Financial risk factors

Financial assets and financial liabilities carried on the consolidated statement of financial position include cash and bank balances, accounts receivable and bills receivable, other receivables, forward foreign exchange contracts, long-term rental deposits, accounts payable and bills payable, accruals and other payables, bank borrowings and license fees payable.

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), liquidity risk and credit risk. The Group's risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions, recognised assets, liabilities and net investment in foreign operations are denominated in a currency that is not the entity's functional currency. The Group operates internationally and is thus exposed to foreign exchange risk arising from various currency exposures. The Group manages significant foreign exchange risk against the respective subsidiaries' functional currencies arising from future commercial transactions, recognised assets, liabilities and net investment in foreign operations principally by means of forward foreign exchange contracts.

For the years ended 31 December 2017 and 2016, sales of goods were mainly denominated in United States dollars, Euro, Pound Sterling and Renminbi. The major currencies for purchases were United States dollars, Renminbi and Euro. In addition, entities within the Group (whose functional currencies include Renminbi, Philippine Pesos, Thai Bahts and Vietnam Dongs) have monetary assets and liabilities denominated in Hong Kong dollars and United States dollars.

The Group has entered into forward foreign exchange contracts to hedge against foreign exchange exposures arising from United States dollars denominated processing income for factories in the PRC and Pound Sterling sales receipts of a Europe subsidiary.

At 31 December 2017, if Renminbi against Hong Kong dollars had strengthened/weakened by 5% with all other variables held constant, the post-tax loss for the year would be increased/decreased by HK$791,000 mainly as a result of foreign exchange difference on translation of Hong Kong dollar denominated net monetary assets of certain PRC subsidiaries (2016: decreased/increased by HK$3,242,000 mainly as a result of foreign exchange difference on translation of Renminbi denominated net monetary assets of a Hong Kong subsidiary); while the other comprehensive income would be increased/decreased by HK$12,571,000 (2016: decreased/increased by HK$19,660,000), representing the impact of the change in fair value of forward foreign exchange contracts at the end of the reporting period.

33. Financial Risk Management (Continued)

33.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

At 31 December 2017, if Euro against Hong Kong dollars had strengthened/weakened by 5% with all other variables held constant, the post-tax loss for the year would be decreased/increased by HK$4,173,000 (2016: HK$3,228,000) as a result of foreign exchange difference on translation of Euro denominated monetary assets of a Hong Kong subsidiary; while the other comprehensive income would be increased/decreased by HK$2,014,000 (2016: decreased/increased by HK$1,341,000), representing the impact of the change in fair value of forward foreign exchange contracts at the end of the reporting period.

If Pound Sterling, Philippine Pesos, Thai Bahts and Vietnam Dongs had strengthened/weakened against Hong Kong dollars by 5% at the year end date with all other variables held constant, the impact on post-tax loss for the year would not be significant.

(ii) Cash flow and fair value interest rate risk

The Group's cash flow and fair value interest rate risk primarily relates to bank balances and bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Bank balances carried at prevailing market interest rate expose the Group to fair value interest rate risk. Management of the Group monitors the related interest rate risk exposure closely and will consider hedging significant interest rate risk exposure should the need arise.

At 31 December 2017, if interest rates on borrowings and bank balances had increased/decreased by 25 basis points with all other variables held constant, the impact on the post-tax loss for the year would not be significant.

Management considers the fair value interest rate risk related to borrowings is insignificant. The Group has been prudent in liquidity risk management by maintaining sufficient cash and the availability of sufficient funding through an adequate amount of committed credit facilities from the Group's bankers.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The cash flow requirements for derivative financial instrument arising from forward foreign exchange contracts are separately provided as the contractual maturities are essential for the understanding of the timing of the cash flows.

	Within 1 year or on demand *HK$'000*	**More than 1 year but less than 2 years** *HK$'000*	**More than 2 years but less than 5 years** *HK$'000*	**More than 5 years** *HK$'000*	**Total** *HK$'000*
At 31 December 2017					
Accounts payable and bills payable	**105,537**	**–**	**–**	**–**	**105,537**
Accruals and other payables	**184,163**	**–**	**–**	**–**	**184,163**
Bank borrowings and interest payments	**99,025**	**–**	**–**	**–**	**99,025**
License fees payable	**2,376**	**2,543**	**12,686**	**21,181**	**38,786**
	391,101	**2,543**	**12,686**	**21,181**	**427,511**

	Within 1 year or on demand *HK$'000*	More than 1 year but less than 2 years *HK$'000*	More than 2 years but less than 5 years *HK$'000*	More than 5 years *HK$'000*	Total *HK$'000*
At 31 December 2016					
Accounts payable and bills payable	88,129	–	–	–	88,129
Accruals and other payables	194,407	–	–	–	194,407
Bank borrowings and interest payments	199,057	–	–	–	199,057
License fees payable	749	1,471	9,857	24,168	36,245
	482,342	1,471	9,857	24,168	517,838

All the Group's forward foreign exchange contracts outstanding at 31 December 2017 are net settlement contracts in hedge relationships. Contracts due to settle within 12 months require undiscounted contractual cash outflows of HK$6,239,000 (2016: HK$19,629,000). Contracts due to settle between 1 and 5 years require undiscounted contractual cash outflows of HK$1,399,000 (2016: HK$36,689,000). There is no gross settlement contract as at 31 December 2017 and 2016.

33. Financial Risk Management (Continued)

33.1 Financial risk factors (Continued)

(b) Credit risk

Credit risk mainly arises from cash and bank balances, derivative financial instruments, rental deposits, outstanding accounts receivable, bills receivable and other receivables.

The Group's sales are mainly on open account. Each open account customer is granted an approved credit limit and the Group closely and regularly monitors the credit default risk of receivables from customers. During the year ended 31 December 2017, receivables from customers are substantially covered by credit insurance. At the end of the reporting period, 15% (2016: 15%) and 48% (2016: 51%) of the accounts receivable and bills receivable was due from the Group's largest customer and the five largest customers respectively in the garment manufacturing segment. Deteriorating operating conditions of customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial assets. To the extent that information is available, management has properly reflected estimates of expected future cash flows in the asset impairment assessments. Derivative counter parties and cash transactions are limited to high-credit-quality financial institutions. There is no significant credit risk in relation to the Group's cash and bank balances as cash and bank balances are placed with banks and financial institutions with good credit ratings.

Management makes periodic assessments on the recoverability of receivables and deposits, and is of the opinion that adequate provision for receivables with significant credit risk has been made.

33.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity shareholders and to maintain an optimal capital structure to reduce the cost of capital.

Total capital comprises "capital and reserves" as shown in the consolidated statement of financial position plus net borrowing, if any. During the years ended 31 December 2017 and 2016, the Group had no net borrowings, which is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity shareholders, return capital to equity shareholders, issue new shares or reduce debt.

33.3 Fair value estimation

The fair value of derivative financial instruments (forward foreign exchange contracts) is determined using forward exchange market rates at the end of each reporting period. The fair value of financial assets and financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Financial instruments are measured in the statement of financial position at fair value. HKFRS 13, "Fair value measurement" requires disclosure of fair value measurements according to the following fair value measurement hierarchy:

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in the active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs or which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

Forward foreign exchange contracts are measured at fair value and classified as level 2 valuations at 31 December 2017 and 2016. There was no transfer of financial assets between fair value hierarchy classifications for the years ended 31 December 2017 and 2016. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur. Level 2 hedging derivatives comprise forward foreign exchange contracts. These forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. The effects of discounting are generally insignificant for Level 2 derivatives. There was no change in valuation techniques during the year.

The carrying amount of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2017 and 2016.

33.4 Offsetting financial assets and financial liabilities

There is no material offsetting, enforceable master netting arrangement and similar agreements during the year.

34. Commitments

(a) Operating lease commitments

At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017 **HK$'000**	2016 HK$'000
Within 1 year	**27,193**	22,879
After 1 year but within 5 years	**16,880**	17,051
After 5 years	**5,560**	6,007
	49,633	45,937

Significant leasing arrangements in respect of land held under operating leases are described in Note 15.

Apart from these leases, the Group is the lessee in respect of a number of properties held under short-term non-cancellable operating leases. Except for the lease in respect of a piece of land located in the Philippines and a factory located in the Republic Union of Myanmar over 5 years, other leases typically run for an initial period of 1 to 3 years, with an option to renew the lease when all terms are renegotiated.

Certain non-cancellable operating leases in respect of properties included above are subject to contingent rent payments, which are charged at amounts varying from 11% to 21% (2016: 15% to 30%) of the monthly gross takings at the leased premises in excess of the base rents as determined in the respective lease agreements. The above disclosure in respect of operating lease commitments for properties exclude contingent rent payments, which are not committed.

(b) Capital commitments

The Group had no capital commitments as at 31 December 2017 and 2016.

35. Related Party Transactions

(a) Transactions with related parties

The following is a summary of significant related party transactions which were carried out in the normal course of the Group's business:

	2017 **HK$'000**	2016 HK$'000
A related company		
Rental expense *(Note)*	**7,209**	8,316

Note:

The entire issued share capital of TDB Company Limited ("TDB"), a related company, is held by a discretionary trust of which two directors of the Company are eligible beneficiaries. Rental expense was paid to TDB for the leasing of factory, storage and ancillary office and was determined by reference to the tenancy agreement entered.

(b) Transactions with key management

(i) Key management personnel remuneration

Remuneration of key management personnel of the Group including amounts paid to the Company's directors as disclosed in Note 12 and certain of the highest paid employees as disclosed in Note 13, is as follows:

	2017 **HK$'000**	2016 HK$'000
Salaries, allowances and bonuses	**22,994**	22,109
Defined contribution plans	**611**	513
Share-based compensation expense – share options granted	**312**	274
	23,917	22,896

Total remuneration is included in "employee benefit expenses" (see Note 11).

(ii) Advance to an employee

In June 2012, a subsidiary of the Group made a cash advance of HK$12,000,000 to a key management employee of the Group. Pursuant to the agreement and the amendment agreements dated in June 2013 and 2014, the cash advance is unsecured and bears interest at the Group's cost of borrowing. Cash advance of HK$3,500,000 plus related interest has been fully repaid in 2016. The remaining cash advance of HK$8,500,000 ("long-term portion") was to be waived by the subsidiary in equal amount semi-annually over a period of ten years commencing from the third year while the individual remains as an employee of the Group. Any unwaived principal plus related accrued interest will be repayable upon cessation of employment of the employee. The long-term portion regarded as prepaid staff benefit is included in other long-term assets (Note 17) and is amortised over twelve years from the date of the advance.

36. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of loss before tax to cash generated from operations:

	2017 HK$'000	2016 HK$'000
Loss before tax	**(67,186)**	(61,927)
Adjustments for:		
Depreciation on property, plant and equipment	**53,006**	67,001
Amortisation of leasehold land and land use rights	**3,504**	3,576
Amortisation of intangible assets	**6,172**	23,090
Net loss on disposals of property, plant and equipment	**1,908**	15,319
Write-down inventories to net realisable value, net	**300**	3,605
Share-based compensation expense – share options granted	**480**	417
(Reversal of)/provision for impairment of receivables, net	**(789)**	2,114
Finance income	**(4,457)**	(7,217)
Finance costs	**4,310**	5,942
Effect of foreign exchange rate changes	**5,092**	(6,716)
Changes in working capital:		
Decrease in inventories	**10,458**	33,207
Decrease in accounts receivable and bills receivable	**14,376**	36,162
Decrease in prepayments and other receivables	**78,337**	29,372
Increase/(decrease) in accounts payable and bills payable	**17,408**	(7,569)
Decrease in accruals and other payables	**(16,967)**	(69,155)
Increase in retirement benefits and other post retirement obligations	**1,523**	833
Cash generated from operations	**107,475**	68,054

(b) The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	HK$'000
At 1 January 2017	198,905
Changes from financing cash flows:	
Proceeds from new bank borrowings	568,285
Repayment of bank borrowings	(668,319)
Interest paid	(2,826)
Other changes:	
Finance costs *(Note 7)*	2,826
At 31 December 2017	98,871

37. Company-level Financial Information

(a) Company-level statement of financial position

	Note	2017 HK$'000	2016 HK$'000
Non-Current Assets			
Property, plant and equipment		**498**	825
Interests in subsidiaries		**566,572**	566,185
Deferred tax assets		**83**	6
		567,153	567,016
Current Assets			
Amounts due from subsidiaries		**363,648**	565,012
Prepayments and other receivables		**457**	579
Current tax recoverable		**19**	–
Cash and bank balances		**10,319**	10,158
		374,443	575,749
Current Liabilities			
Accruals and other payables		**6,898**	7,652
Amounts due to subsidiaries		**4,742**	219,966
Current tax payable		**–**	15
		11,640	227,633
Net Current Assets		**362,803**	348,116
Net Assets		**929,956**	915,132
Capital and Reserves			
Share capital	30	**27,161**	27,161
Reserves	37(b)	**902,795**	887,971
Total Equity		**929,956**	915,132

37. Company-level Financial Information (Continued)

(b) Movements in components of equity

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share premium HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	General reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 January 2017	**14,449**	**1,509**	**321,020**	**110,000**	**440,993**	**887,971**
Comprehensive income						
Profit for the year	**–**	**–**	**–**	**–**	**14,344**	**14,344**
Total comprehensive income	**–**	**–**	**–**	**–**	**14,344**	**14,344**
Transactions with owners						
Share option scheme						
– value of employee services	**–**	**480**	**–**	**–**	**–**	**480**
Share options granted to employee lapsed	**–**	**(331)**	**–**	**–**	**331**	**–**
Total transactions with owners	**–**	**149**	**–**	**–**	**331**	**480**
As at 31 December 2017	**14,449**	**1,658**	**321,020**	**110,000**	**455,668**	**902,795**

	Share premium HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	General reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 January 2016	14,449	1,584	321,020	110,000	341,846	788,899
Comprehensive income						
Profit for the year	–	–	–	–	98,655	98,655
Total comprehensive income	–	–	–	–	98,655	98,655
Transactions with owners						
Share option scheme						
– value of employee services	–	417	–	–	–	417
Share options granted to employee lapsed	–	(492)	–	–	492	–
Total transactions with owners	–	(75)	–	–	492	417
As at 31 December 2016	14,449	1,509	321,020	110,000	440,993	887,971

38. Immediate and Ultimate Holding Company

At 31 December 2017, the directors consider the immediate parent and ultimate holding company of the Group to be Silver Tree Holdings Inc. and New Perfect Global Limited respectively, both of which are incorporated in the British Virgin Islands. These entities do not produce financial statements available for public use.

39. Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Year Ended 31 December 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
HK(IFRIC) 22, *Foreign currency transactions and advance consideration*	1 January 2018
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

HKFRS 9, *Financial instruments*

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("FVTPL") and (3) fair value through other comprehensive income. The classification is determined based on the contractual cash flow characteristics of the financial assets and the entity's business model for managing the financial assets.

The Group has assessed that its financial assets currently measured at amortised cost will continue this classification and measurement upon the adoption of HKFRS 9.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in an earlier recognition of credit losses. Based on a preliminary assessment, if the Group were to adopt the new impairment requirements at 31 December 2017, the accumulated impairment loss at that date would not change significantly as compared with that recognised under HKAS 39.

39. Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Year Ended 31 December 2017 (Continued)

HKFRS 9, *Financial instruments* (Continued)

(c) Hedge accounting

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group has assessed that its current hedge relationships will qualify as continuing hedges upon the adoption of HKFRS 9 and therefore it expects that the accounting for its hedging relationships will not be significantly impacted.

HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 2(s). Currently, revenue from sales of goods and provision of services is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identified 3 situations in which control of the promised goods or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from sales of goods and rendering of services.

(b) Sales with a right of return

Currently when the customers are allowed to return the products, the Group estimates the level of returns and makes an adjustment against revenue and cost of sales. The Group has assessed that the adoption of HKFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return.

However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

The Group expects the impact upon initial adoption of HKFRS 15 will not be material.

HKFRS 16, *Leases*

As disclosed in Note 2(t), currently the Group enters into leases as the lessee and classifies its leases as operating leases. Once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, the Group will be required to account for all leases of more than 12 months in a similar way to current finance lease accounting.

The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in Note 34(a), at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$49,633,000 for properties, part of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

40. Particulars of Principal Subsidiaries, all of which are unlisted, as at 31 December 2017

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
338 Apparel Limited	Hong Kong	Hong Kong	Branded product trading	HK$1,000,000	–	100%	100%
338 Fashion Co. Limited	Hong Kong	Hong Kong	Branded product distribution and retail	HK$3,000,000	–	100%	100%
338 Fashion (Macau) Company Limited	Macau	Macau	Branded product distribution and retail	MOP25,000	–	100%	100%
Action Ease Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
All Asia Garment Industries, Inc.	The Philippines	The Philippines	Factory facilities leasing	P27,425,000	–	100%	100%
All Asia Industries Co., Ltd. *(Note (i))*	PRC	PRC	Garment manufacturing	HK$53,500,000	–	100%	100%
Apparel Trading & Property Ventures, Inc.	The Philippines	The Philippines	Investment holding	P7,500,000	–	100%	100%
Brilliant Idea International Limited	Hong Kong	Hong Kong	Investment holding	HK$100	–	100%	100%
昇韻管理咨詢(深圳)有限公司 *(Note (i))*	PRC	PRC	General administrative and supporting services	RMB500,000	–	100%	100%
Broad Ease Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
Cissonne (Shanghai) Enterprises Co., Ltd. *(Note (i))*	PRC	PRC	Branded product distribution and retail	RMB1,000,000	–	100%	100%
Cissonne Hong Kong Limited	Hong Kong	Hong Kong	General trading	HK$1	–	100%	100%
Dress Line Holdings, Inc.	The Philippines	The Philippines	Investment holding	P59,562,500 (common)	–	100%	100%
				P180,000,000 (preferred) *(Note (ii))*	–	100%	100%
Elite Fashion (Hong Kong) Limited	Hong Kong	Hong Kong	Investment holding	HK$2	–	95%	95%
Excellent Jade Limited	Hong Kong	Hong Kong	Garment trading and manufacturing	HK$10,000	–	100%	100%
Excellent Quality Apparel, Inc.	The Philippines	The Philippines	Garment manufacturing	P40,000,000	–	100%	100%
Gold Flower Limited	Hong Kong	Hong Kong	General administrative and supporting services	HK$10,000	–	100%	100%
Great Horizons Property Ventures, Inc.	The Philippines	The Philippines	Investment holding	P35,000,000 (common)	–	100%	100%
				P3,000,000 (preferred) *(Note (ii))*	–	100%	100%

40. Particulars of Principal Subsidiaries, all of which are unlisted, as at 31 December 2017
(Continued)

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
Guangzhou Excellent Fashion Design Company Limited *(Note (i))*	PRC	PRC	Garment design and provision of technical services	RMB1,500,000	–	100%	100%
Guangzhou Tristate Industrial Co., Ltd. *(Note (i))*	PRC	PRC	Garment manufacturing	HK$18,500,000	–	100%	100%
Hefei Tristate Garment Manufacturing Company Limited *(Note (i))*	PRC	PRC	Garment manufacturing	RMB105,000,000	–	100%	100%
合肥賢法服裝有限公司 *(Note (i))*	PRC	PRC	General trading	RMB1,000,000	–	100%	100%
HFT Corp. Limited	Hong Kong	Hong Kong	Investment holding	HK$10,000,000	–	100%	100%
Honest Point Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
Hua Thai Manufacturing Public Company Limited	Thailand	Thailand	Garment manufacturing and exporting	THB100,000,000	–	99.87%	99.87%
Hwa Fuh Manufacturing Company (Hong Kong) Limited	Hong Kong	Hong Kong	Investment holding	HK$55,180,219	–	100%	100%
Joint Holdings & Trading Company Limited	Hong Kong	Hong Kong	Investment holding	HK$925 (ordinary)	–	100%	100%
				HK$7,200,075 (deferred) *(Note (iii))*	–	100%	100%
Keybird Limited	Hong Kong	Hong Kong	Investment holding	HK$3,000,000	100%	–	100%
Keyear Company Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	100%	–	100%
Maxride Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
Prime-Time Company Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
Prosperous Year International Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Quality Time Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	100%	–	100%
Shanghai Tristate Enterprises Co., Ltd. *(Note (i))*	PRC	PRC	Branded product distribution and retail	RMB180,000,000	–	100%	100%
Sharp Hero International Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Shiny Ease Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	95%	95%
Sigsbee Investment Limited	The Republic of Liberia	Hong Kong	Investment holding	US$1	100%	–	100%
Sparkling Ocean Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	100%	–	100%
Strong Pine Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	100%	–	100%
Tenmo Limited	Hong Kong	Hong Kong	Investment holding	HK$2,000,000	100%	–	100%

40. Particulars of Principal Subsidiaries, all of which are unlisted, as at 31 December 2017

(Continued)

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
Timely Corporate Limited	Hong Kong	Hong Kong	Nominee and secretarial services	HK$1	100%	–	100%
Trinovation Italy S.r.l.	Italy	Italy	Product design and development	EUR20,000	–	95%	95%
Tristate Cissonne Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Tristate Cissonne International Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Tristate Cissonne IP Limited	British Virgin Islands	Hong Kong	Trademark holding	US$1	–	100%	100%
Tristate EFM Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Tristate EFM Hong Kong Limited	Hong Kong	Hong Kong	General trading	HK$1	–	100%	100%
Tristate EFM International Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Tristate EFM IP Limited	British Virgin Islands	Hong Kong	Trademark holding	US$1	–	100%	100%
Tristate Industrial Co., Ltd.	Taiwan	Taiwan	Sales liaison services	NT$20,000,000	–	100%	100%
Tristate International SA	Switzerland	Switzerland	General trading and marketing	CHF100,000	–	95%	95%
Tristate Italy S.r.l.	Italy	Italy	Trading of apparel and accessories	EUR10,000	–	95%	95%
Tristate Japan, Inc.	Japan	Japan	Garment trading and distribution	JPY5,000,000	–	95%	95%
Tristate Myanmar Company Limited	The Republic of the Union of Myanmar	The Republic of the Union of Myanmar	Garment manufacturing	US$1,126,322	–	100%	100%
Tristate Trading Limited	Malaysia	Macau	Garment trading	US$1	–	100%	100%
Tristate Tri-novation Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
Tristate Tri-novation Hong Kong Limited	Hong Kong	Hong Kong	Investment holding	HK$1	–	95%	95%
Tristate Trinovation IP S.à r.l.	Luxembourg	Luxembourg	Trademark holding and licensing	EUR12,500	–	95%	95%
Tristate US Inc.	United States of America	United States of America	Branded product distribution and retail	US$1	–	100%	100%
TT&Co Asia Limited	Hong Kong	Hong Kong	General trading	HK$10,000	–	100%	100%
Upgain Limited	British Virgin Islands	Hong Kong	Investment holding	US$16,000,000	–	99.87%	99.87%
Upgain (Vietnam) Manufacturing Company Limited	Vietnam	Vietnam	Garment manufacturing	US$4,000,000	–	100%	100%
Velmore Holdings Limited	England	England	Investment holding	GBP558,335.60	–	100%	100%

40. Particulars of Principal Subsidiaries, all of which are unlisted, as at 31 December 2017

(Continued)

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
Velmore Limited	England	England	Design and customer support services	GBP30,000	–	100%	100%
Winner Wealth Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%

Notes:

(i) A wholly foreign owned enterprise established in the PRC.

(ii) The holders of the preferred shares are entitled to receive the same dividends as the common shares and have no right to vote at any general meeting of the company. The preferred shares are redeemable subject to the terms and conditions determined by the board of directors of the company and have preference over common shares in the distribution of assets of the company in the event of liquidation.

(iii) The holders of the deferred shares are not entitled to receive any dividends or other distributions and have no right to vote at any general meeting of the company. They are not entitled to participate in any profits or assets of the company unless upon a winding up, in that case, the holders of the deferred shares have the right to receive the amount paid up on such deferred shares to be paid out of the surplus assets of the company in accordance with its articles of association.

None of the subsidiaries had any loan capital in issue at any time during the years ended 31 December 2017 and 2016.