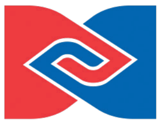


晶苑國際集團有限公司*(STOCK CODE: 2232.HK)
CRYSTAL INTERNATIONAL GROUP LIMITED

(Incorporated in Bermuda with limited liability and registered by way of continuation in the Cayman Islands)

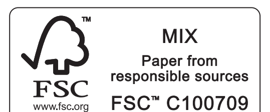
Stock Code: 2232

2017
ANNUAL REPORT

CIGL

inspire

Crystallizing
Success



* For identification purpose only

Corporate Information

Board of Directors

Executive Directors
Mr. LO Lok Fung Kenneth *(Chairman)*
Mrs. LO CHOY Yuk Ching Yvonne *(Vice Chairman)*
Mr. LO Ching Leung Andrew *(Chief Executive Officer)*
Mr. WONG Chi Fai
Mr. WONG Sing Wah

Independent Non-executive Directors
Mr. GRIFFITHS Anthony Nigel Clifton
Mr. TSE Man Bun Benny
Mr. CHANG George Ka Ki
Mr. MAK Wing Sum Alvin

Board Committees

Audit Committee
Mr. GRIFFITHS Anthony Nigel Clifton *(Chairman)*
Mr. TSE Man Bun Benny
Mr. CHANG George Ka Ki

Remuneration Committee
Mr. MAK Wing Sum Alvin *(Chairman)*
Mr. TSE Man Bun Benny
Mr. CHANG George Ka Ki
Mr. LO Lok Fung Kenneth

Nomination Committee
Mr. LO Lok Fung Kenneth *(Chairman)*
Mr. GRIFFITHS Anthony Nigel Clifton
Mr. MAK Wing Sum Alvin

Corporate Development Committee
Mr. LO Ching Leung Andrew *(Chairman)*
Mr. WONG Chi Fai
Mr. WONG Sing Wah
Mr. CHANG George Ka Ki
Mr. MAK Wing Sum Alvin
Mr. LEE King Fai

Authorized Representatives

Mr. LO Ching Leung Andrew
Mr. LEE King Fai CPA

Company Secretary

Mr. LEE King Fai CPA

Auditor

Deloitte Touche Tohmatsu

Registered Office

Ugland House
P.O. Box 309
Grand Cayman KY1-1104
Cayman Islands

Principal Place of Business in Hong Kong

3/F, Crystal Industrial Building
71 How Ming Street
Kwun Tong
Kowloon
Hong Kong

Headquarters

Crystal Industrial Building
71 How Ming Street
Kwun Tong
Kowloon
Hong Kong

Principal Share Registrar and Transfer Office

Maples Fund Services (Cayman) Limited
P.O. Box 1093
Boundary Hill, Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong
Tel: 852 2862 8555
Fax: 852 2865 0990
Email: hkinfo@computershare.com.hk

Legal Advisers

Simpson Thacher & Bartlett
Maples and Calder (Hong Kong) LLP

Compliance Adviser

Guotai Junan Capital Limited

Company Website

http://www.crystalgroup.com

Stock Code

2232

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Financial Highlights

	For the year ended 31 December / At 31 December	
	2017	2016
Key Financial Information (US$'000)		
Revenue	**2,177,994**	1,763,392
Cost of Sales	**1,735,583**	1,407,730
Gross Profit	**442,411**	355,662
Profit for the year	**148,517**	123,652
Attributable to:		
– Owners of the Company	**148,429**	123,652
– Non-controlling interests	**88**	—
Earnings per share for profit attributable to the owners of the Company (US cents)		
– basic	**6.20**	5.36
– diluted	**6.20**	N/A
Total assets	**1,821,725**	1,360,823
Total liabilities	**910,957**	1,052,594
Total equity	**910,768**	308,229
Attributable to:		
– Owners of the Company	**910,768**	305,558
– Non-controlling interests	**—**	2,671
Net debt[1]	**113,603**	328,035
Cash and cash equivalents	**412,696**	144,101
Key Financial Ratios		
Gross profit margin (%)	**20.3%**	20.2%
Net profit margin (%)	**6.8%**	7.0%
Net debt to equity ratio (%)[2]	**12.5%**	106.4%
Cash conversion cycle (days)[3]	**63**	67

Note:

1. *Net debt represents total interest-bearing bank borrowings less bank balances and cash.*
2. *Net debt to equity ratio represents total interest-bearing bank borrowings less bank balances and cash, divided by total equity.*
3. *Cash conversion cycle represents inventory turnover days plus trade and bills receivables turnover days, less trade and bills payable turnover days.*

Company at a Glance

About Crystal International Group Limited

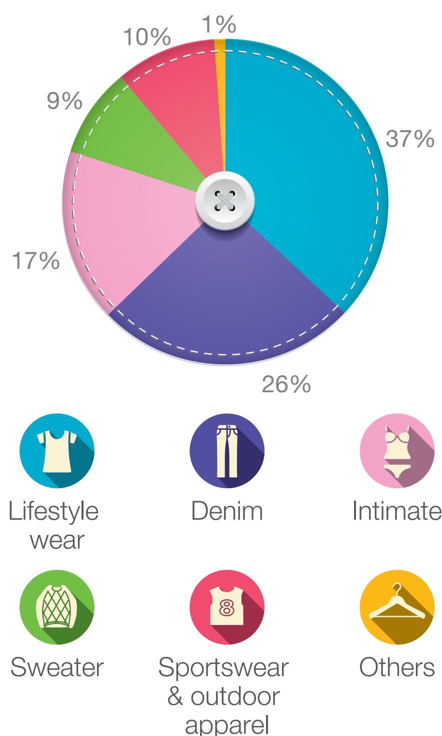
Crystal International Group Limited ("**Crystal International**" or the "**Company**") is a global leader in the apparel manufacturing industry. Founded in Hong Kong in 1970, the Company and its subsidiaries (collectively, the "**Group**", or "**we**") has a diversified product portfolio categorised in five segments, including lifestyle wear, denim, intimate, sweater, and sportswear and outdoor apparel, with leading positions in corresponding categories. The Group operates a multi-country manufacturing platform, with 20 production facilities spanning across five countries, including Vietnam, China, Cambodia, Bangladesh and Sri Lanka.

The Group's highly differentiated value-add driven "Co-creation" business model offers its customers with fashion, speed and innovation, and produces the right product at the right time and at the right cost, which is a critical component to the success of the global apparel brands in an ever-changing industry environment. The Group has a genuine focus on sustainability. It was ranked 17th out of 50 in the Fortune business magazine "Change the World" list in 2016, which recognises companies across the globe that have made an important social and environmental impact through their strategy and operations.

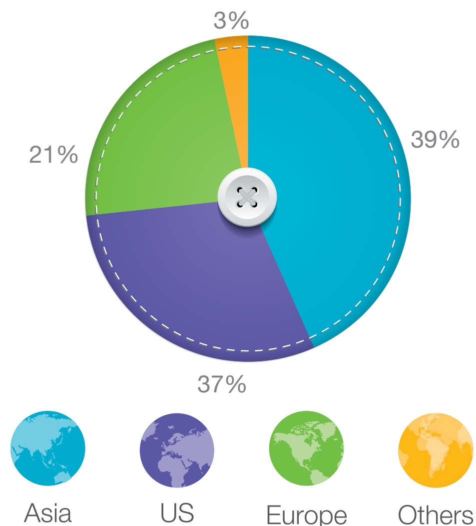
Revenue

Gross Profit

Diversity — Product Categories



Diversity — Geographical Markets



Chairman's Statement

On behalf of the board of directors (the "**Board**") of Crystal International, I am pleased to present the annual results of the Group for the year ended 31 December 2017.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 3 November 2017 (the "**Listing Date**"). The Initial Public Offering ("**IPO**") is an important milestone in the development of the Group, which has had the combined impact of enabling the Group to strengthen its corporate values, become better known publicly, and gain access to the international capital markets. With strong support from various stakeholders, especially our long-standing customers, strategic partners and suppliers, the process of our IPO went very smoothly. In particular, I am deeply grateful for the support of our major customers, Fast Retailing Co., Ltd. and L Brands, Inc., who have become cornerstone investors. In addition to my gratitude to our management team for their dedicated effort and to various professional parties for their guidance and input during the IPO process, I would like to take this opportunity to express my sincere appreciation of our shareholders who have given a strong vote of confidence in Crystal International and its future.

"For the Greater Good" Corporate Culture

"For the Greater Good" is the bedrock of our corporate culture. Crystal International has a mission to "Change Ourselves, Change Our Company, Change The World". We have developed a cohesive, ambitious and best-in-industry team that is supportive and energetic. The team shares a common goal of "Becoming The World's No.1 Apparel Maker". In 2017, seizing opportunities determinedly, we progressed towards the long term objective, successfully achieving the Group's development targets that we had set at the beginning of the year.

Moving into Sportswear and Outdoor Apparel to Fuel a New Growth Engine

While we will comment on our business development in the "Management Discussion and Analysis" section, I would like here to highlight the major elements of the Group's progress in 2017. Following the Group's successful acquisition of Vista Corp Holdings Limited and its subsidiaries ("**Vista**") at the end of 2016, we have moved successfully into the business of sportswear and outdoor apparel manufacturing. We see sportswear being highly complementary to our overall product portfolio. Expanding our activity in the sportswear business is expected to become a strong driver for our future growth. We are committed to leveraging our expertise in apparel manufacturing to deliver breakthrough innovations in sportswear products at the same time as we develop cross-product innovations.

"Change Driver" role with Focus on Total Innovation

The apparel manufacturing industry is at the stage of consolidation. By leveraging our competitive advantages, Crystal International should be in a good position to take advantage of opportunities arising from industry consolidation to achieve continuing growth and innovation. Enterprises have no choice but to undergo continuous transformation if they are to stay competitive in an environment of "survival of the fittest". As the Chairman, I have assumed the role of "Change Driver" for the long-term strategic development of the Group. In 2016, despite being the world's largest garment producer in terms of production volume, our market share was only 0.4% globally. I believe there is ample opportunity for the Group's sustainable development when global demand for apparel manufacturing is growing by a few percentage points every year.

Looking for opportunities to break through, especially in terms of management mindset, is the key to successful transformation. Crystal International emphasizes "Total Innovation", and this has become one of the core values of the Group. Innovation is an ongoing process. On the one hand, the Group has been adopting advanced automation facilities while on the other, we have been active in research and development ("**R&D**") of new technology, which is indispensable in raising the Group's productivity. In respect of product innovation, each operating division has its own dedicated product development centre that conducts continuous R&D to develop and deliver new products and new technology. On the production process front, each operating division also features an industrial engineering department to help raise productivity. Our larger-scale factories have established technical development divisions dedicated to R&D of pre-washing, machinery, machine parts, and software technology, in particular applying radio-frequency identification ("**RFID**"), big data analysis, and upgrading Industrial 4.0 applications.

Our achievements through these years of innovation have resulted in work efficiency enhancement while also improving our workers' quality of life. The enhanced efficiency among our workers has benefitted the Group, thus, in turn, achieving an "all-win" situation. The ever-transforming societies in which we live, mean that market demand is changing rapidly. In the era of artificial intelligence, big data and robotics, Crystal International has dedicated itself to becoming a pioneer in the industry, taking the lead in technology application. We endeavor to strive for breakthroughs in this new age of disruptive innovations.

Corporate Social Responsibility to Build an "Enterprise with a Conscience"

As our business scale expands, so will our share in the global market and our influence within the industry. The greater the influence we possess, the greater is the corporate social responsibility that we have towards society. In 2007, we started to promote our idea of sustainable development by defining the 3Ps –"People", "Planet" and "Profit". Taking these as three cornerstones, we have established a framework specific to Crystal's circumstances by adding"Innovation" and "Product Integrity" to cover the following five key areas:

– Environment;

– Innovation;

– Product Integrity;

– Employee Care; and

– Community Engagement.

After establishing the framework, our first step was to formulate the direction leading us to the desirable outcome. The Group then launched five-year plans to set realistic, environmentally friendly targets helping us to face the challenges ahead with quantitative measurements and in a sustainable manner.

Crystal International is committed to quality. We produce products with a conscience and also build our enterprise with a conscience. With "the Greater Good" guiding us, we safeguard our customers' brands by satisfying consumers. In pursuit of the sustainable development of the Group, we desire to give back to society what we take from it, aiming to be an outstanding corporate citizen. Our dedication to sustainability has been well recognized, winning us the ranking of 17th out of the top 50 global corporations in Fortune Magazine's "Change the World" list in 2016, where we were the only Hong Kong corporation on the list among all other multinational corporations and reputable international brands.

As a consequence of the recent IPO, we believe the market will have higher expectations of Crystal International regarding corporate social responsibility. In addition to maintaining our competitive advantage, we must also focus on risk management, and facilitating our accountability to investors, customers, employees and society.

Professional Management with Emphasis on Corporate Governance

As a listed company, the importance of good corporate governance speaks for itself. Crystal International had taken the initiative to set up a well-designed and effective mechanism to improve steadily its standards of corporate governance in its early years. We invited experienced and capable executives to join the Board to strengthen our corporate governance. For many years, our Board has been structured to include independent non-executive directors, enhancing both professional management and the level of corporate governance achieved. I would like to take this opportunity to thank our Board, especially our independent non-executive directors, for their support and contribution throughout the years.

Business Prospects

In 2018, the momentum of our business continues to be positive. With the continuing trend of consolidation in the apparel manufacturing industry, Crystal International will continue to take advantage of our competitive position and listed company status to maintain our leading position in the market, and to meet the expectations of our shareholders.

Crystal International has grown from a team of around seventy members, to an enterprise with over seventy thousand employees today. We believe our successful listing should contribute positively to our long-term sustainable development and, at the same time, enhance our competitiveness that will strengthen our market leadership in the industry. None of all this could have been achieved without the collective effort and dedication of our management team and all our employees. Looking ahead, we will continue to sharpen our existing competitive edge and deploy our spirit of striving "For the Greater Good" to work towards our driving vision of becoming the world's no. 1 apparel manufacturer.

Lo Lok Fung Kenneth
Chairman and Executive Director
Hong Kong, 15 March 2018

Management Discussion and Analysis

Market Overview

Overview of Global Apparel Retail Industry

In 2017, economies globally recorded the broadest cyclical upswing in the decade. Major apparel retail markets grew, supported by strong holiday sales as reported by our branded customers.

Fast development of information technology and globalization are driving the world towards becoming one market. Consumers can follow latest global fashion trends faster and more easily. The growing influence of social media contributes to accelerating changes in consumer preferences for apparel products. To enhance their competitiveness, our brand customers have to react quickly to changing fashion trends, regularly introducing new, superior apparel products that appeal to consumers.

Around the world, consumers are becoming more environmentally conscious and expect ecologically friendly fabrics, reduced emission of pollutants, greater social commitment and fair treatment of employees in apparel production. In many countries, regulators require companies to create more sustainable products, for example by prohibiting certain harmful dyestuffs, resulting in far-reaching implications for global brands across the value chain as they adapt to making and marketing more sustainable products. The brands selling products marketed as sustainable and environmentally friendly have attracted strong consumer interest.

Overview of the Apparel Manufacturing Industry

Economic growth is favourable for the development of the apparel manufacturing industry, especially in Asia, the largest apparel production base in the world. Vietnam, China, Bangladesh and Cambodia are its key apparel manufacturing countries, enjoying relatively lower labour costs and preferential trade agreements.

Apparel manufacturing in Asia is highly fragmented. In the apparel manufacturing industry, consolidation has occurred in recent years and is expected to continue. Brands are consolidating their supplier base and tend to collaborate with large manufacturers who can respond quickly through flexible production capability. The current, leading players are expected to experience further growth, bolstered by the continuing expansion of the Asian apparel manufacturing industry and the elimination of small players due to consolidation.

Operating Environment in Asia

Our Group has 20 manufacturing facilities in Vietnam, China, Cambodia, Bangladesh and Sri Lanka. This is enabling us to shift our production base from China to other Asian countries to take advantage of their relatively lower operating costs due to these countries being densely populated with ample labour supply.

Vietnam

In recent years, Vietnam has emerged as a strategic location for apparel manufacturers, having experienced steady GDP growth in mid-to-high single digits over the last few years. The Vietnamese government policy of maintaining competitive labour costs, in order to attract foreign investment, indicates that increases in minimum wages are expected to remain modest in the near term. Vietnam's National Wage Council announced a 6.5% average increase in monthly minimum wages across the country for 2018. Apparel products exported from Vietnam are duty free to Japan and duty free to China, and will soon be duty free to the European Union ("**EU**"). Since Vietnam is a member country of ASEAN, apparel products originating from Vietnam are also duty free to other ASEAN countries, as well as Australia, New Zealand, Russia and Korea. Vietnam signed a Free Trade Agreement & Economic Integration Agreement with Japan in 2008, that is currently expected to end in 2026. Vietnam's duty free trade agreement with ASEAN countries is currently expected to end in 2018. The EU-Vietnam Free Trade Agreement is expected to be ratified by all member countries in 2018 and take effect in 2019 onwards.

China

China is still the biggest producer in the global apparel manufacturing industry. Apparel manufacturers in China are known for delivering high value-added products, and are supported by well-developed infrastructure across China. After rapid growth over the past three decades, China's economy has entered a "new normal" stage with steady and moderate GDP growth. The minimum wage level has increased steadily over the past five years. Apparel products exported from China are duty free to ASEAN[1] countries, Australia, New Zealand and Korea, and may become duty free to Japan pursuant to the Regional Comprehensive Economic Partnership ("**RCEP**"). The duty free trade agreement between China and ASEAN[1] countries officially came into force in 2007 and is currently expected to end in 2020. According to the Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Co-operation between China and ASEAN[1], all apparel products are subject to the free-trade agreement under which, currently, duties on apparel products are set at 0%.

Bangladesh

Bangladesh currently stands as the second largest producer after China in terms of share of global apparel exports, primarily due to inexpensive and readily accessible labour, favourable government policies and preferential trade agreements. Over the past five years, Bangladesh has maintained yearly real GDP growth of over 6%. The country's labour force has been slowly increasing. Minimum wages in the apparel industry are expected to increase. A Least Developed Country ("**LDC**"), Bangladesh has been a WTO member since 1995 and benefited from the EU's "Everything but Arms" arrangement, which grants duty free, quota free access for all exports, except arms and ammunition, resulting in apparel exports being duty free to Canada, Japan and China. Through other agreements, apparel exports are also duty free to Singapore, Australia, New Zealand, Russia and Korea.

*Note 1: "**ASEAN**" stands for the Association of Southeast Asia Nations, established on 8 August 1967, the member states of which comprise Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.*

Cambodia

Most Cambodian apparel factories engage only in cut-make-trim activities and depend on fabrics and accessories imported from other countries. Cambodia's GDP grew at a CAGR of 9.0% from 2012 to 2015. Monthly minimum wages have been steadily rising for workers in the apparel industry due to constant pressure from labour unions and human rights organizations. In 2017, the Ministry of Labour and Vocational Training agreed to raise the monthly minimum wage to US$153, a 9.2% increase from 2016. Being a member country of ASEAN[1] and also as a LDC, apparel products from Cambodia are duty free to China and to other ASEAN[1] member countries and have enjoyed duty free preferences granted by major markets including the EU, Japan, Canada, Australia, New Zealand and Korea since 2008. The implementation of the duty free trade agreement with ASEAN[1] countries is currently expected to end in 2018.

Business Review

The Group has strategic relationships with leading players in the global apparel retail markets such as the United States, China and Japan, as well as European countries. The Group produces apparel for seven out of top 10 global brands.

Differentiated Value-added Driven Co-creation Business Model

In the ever-changing global apparel industry, global apparel brands increasingly focus on a one-stop procurement platform which gives them the right product at the right time at the right cost. "Co-creation", the differentiated business model developed by us through decades of industry experience, addresses our customers' sophisticated needs. We think like a brand operator — our co-creation business model offers our customers value-added services, ranging from fashion trend and market direction research, product concept design, raw material development and sourcing, product and industrial innovation, prototype making, global manufacturing planning and optimization, inventory management to logistics and delivery. Our customers recognize and appreciate the value of our co-creation business model, which cannot be easily replicated by other apparel manufacturers.

Right Product

Our deep knowledge of global fashion trends and market direction (from design and fabric material to product innovation) together with our insights into the needs of our customers enable us to profile what products should be commercially successful for a particular customer. For example, our environmentally sustainable denim manufacturing processes enable our customers to launch eco-friendly denim product lines. We co-created a series of loungewear, cross-implementing key manufacturing techniques of lifestyle wear and sweater products and thus effectively creating a whole new product category of our own. We have jointly developed a type of wireless bra that adopts sew-free technology and replaces traditional steel wire with light-weight materials, significantly improving wearing comfort while maintaining good shape and support that reduces pressure points on the wearer's body. These innovations have made the wireless bra one of the bestselling products for our customers. We have also formed a strategic partnership with Jeanologia, a European-based company that specializes in sustainable, efficient washing and laser technologies for denim finishing.

*Note 1: "**ASEAN**" stands for the Association of Southeast Asia Nations, established on 8 August 1967, the member states of which comprise Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.*

Right Time

Our deep knowledge of global fashion trends and market direction has enabled us to initiate product concepts and product developments with our customers earlier and faster, achieving speed-to-market. We are able to engage our customers' key decision makers in the product development process, thereby allowing us to finalize product specifications, secure raw materials, and commence manufacturing within a shortened timeframe. This ability, coupled with our self-developed, automated equipment and breakthroughs in industrial innovation, optimizes the manufacturing process thus ensuring production lead time is shortened for quick response to market demand, resulting in these innovative products being commercially successful and profitable.

Right Cost

Using our advances in industrial and cost engineering, we are able to develop new manufacturing processes and techniques that contribute to cost efficiency while we also apply our knowledge of raw materials to identify new fabrics to enhance the products. For example, we developed the "Sewing Sweater" by utilizing sewing techniques to replace the traditional linking process in sweater production, significantly reducing overall production time and costs. Our manufacturing platform offers a number of critical efficiencies that optimize the cost of products for our customers. These efficiencies include large scale global procurement power, choice of manufacturing location based on import-export duty or trade policies, as well as production efficiencies resulting from decades of apparel production experience (including customization of production machinery and processes, worker incentivization and use of both automated machinery and advanced technologies).

Our customer-centric approach to product development has allowed us to co-create popular products to our customers' advantage. Our teams focus on anticipating, meeting and exceeding our customers' expectations. Key products that have been successfully introduced under co-creation in recent years include push-up jeans, laser jeans and wireless bras.

As a result of our strong co-creation capabilities, we are able to develop and launch innovative, commercially successful products to meet our customers' increasing demands, hence maintaining and strengthening both our competitive advantage and our market leadership.

Strategic Partnerships with the World's Leading Apparel Brands

We believe it is critical to partner with the leading industry customers to ensure sustainable, quality growth. Therefore, in order to provide the best products and services, we have made a strategic decision to partner with a selected portfolio of globally leading apparel brands which are the global leaders in each of our product segments. Our relationships with many of them range from 10 to over 30 years as a result of the dedicated, differentiated value propositions we offer.

Our Diversified Product Portfolio

Lifestyle Wear

Introduced in 1976, lifestyle wear is now the largest category in our product portfolio in terms of revenue contribution. Revenue from lifestyle wear accounted for 37% of total revenue in 2017 (2016: 42%).

Denim

In 1982, we started our woven division and in 2005 transformed it to focus on denim products as the centrepiece of our strategy to become the global leader in each of our product categories. Revenue accounted for 26% of total revenue in 2017 (2016: 27%). In this category, we have introduced signature products, such as push-up jeans, "water-less" denim jeans, and maternity denim.

Intimate

Established in 2004, revenue accounted for 17% of total revenue in 2017 (2016: 17%). In this category, we have introduced the wireless bra.

Sweater

Starting in 1970, sweaters and jersey knits were the products initially manufactured by the Group. In recent years, sweater and jersey products have declined in popularity among ultimate consumers. Revenue accounted for 10% of total revenue in 2017 (2016: 13%). In this category, we have successfully introduced the loungewear collection, a new hybrid products which cross-implements key manufacturing techniques of lifestyle wear and sweater.

Sportswear and Outdoor Apparel

We introduced a separate product category of sportswear and outdoor apparel through the acquisition of Vista in 2016. Revenue accounted for 10% of total revenue in 2017 (2016: Nil). In this category, we have developed the technologies for Smart Visibility products and Bio-Morphologic Evolution ("**BME™**") printed apparel and are in the process of commercializing these products further.

Our diversified product portfolio and solid customer relationships have enabled us to achieve significant sales growth through cross-selling, extending our sales from one product category into others with our key customers and among different brands owned by certain customers.

We aim to optimize our existing product portfolio and expand our product offerings to introduce new, improved products within our existing product categories, ensuring our offerings remain up to date with evolving industry trends. We will also develop new product categories through deploying our expertise in our existing product portfolio. For instance, combining our strengths in fashion with our newly introduced sportswear product category, we will work with our customers to develop new product categories, such as athleisure.

Our Automated Manufacturing Processes and Key Technologies

We believe increased automation is essential to our success by ensuring reliability and cost competitiveness. Accordingly, we are equipping our manufacturing facilities with state-of-the-art equipment. Many of the machines we utilize require minimal human operation, allowing us to reduce labor costs and focus our factory staffing on supervisory and maintenance personnel. We design, customize and integrate automation technologies into our production processes. We have also developed internally several of the production technologies and some of the equipment used in our production and testing processes.

We have imported units of our key machinery from countries such as Germany, Japan, Spain and Italy. Key technologies and equipment applied in our production processes include:

Assembling

- Automated apparel hanger system integrated with RFID solutions to allow more effective control and logistical arrangements, resulting in lean manufacturing;
- Gerber fabric cutting machines which automatically cut fabrics with efficiency and great delicacy;
- Shima Seiki automated knitting machines which produce fine, sophisticated patterns without human operation; and
- A variety of automatic machines, including automatic wire/bone insertion machines for the automatic insertion of the wire/bone into the casing of bras, in-house developed bonding machines which seamlessly bond bra foam cups, belt loop automation machines, auto J-stitch machines and auto pocket setting machines, all increasing productivity at lower unit cost.

Value-added Process (VAP)

- Automatic ink dispensers to improve accuracy and precision in printing formulas, effectively reducing overall ink consumption while providing tighter control of inventory. These are the first of their kind in our industry;
- The digital printing machine which produces complicated patterns that are not possible using traditional methods;
- Water-free laser technology which creates washing patterns like dots, lines, text and even images via computerised processes;
- The E-Flow laundry machine which softens apparel by nano-bubbles resulting in zero waste water discharge; and
- In-house developed lace inspection machines using a laser beam to measure and detect variances in lace width.

Smart Apparel Technology

- The SmartLife textile-based technology platform that uses sensors to allow the continuous monitoring of a person's vital signs;
- Washable LED[1] toggles and LED[1] foldable tapes which are fused into sports jackets and other outdoor apparel to enhance night visibility; and
- BME™, a new form of polyurethane that is directly printed on apparel to provide compression for the wearer, improving blood flow, enhancing both performance and endurance while protecting against injury.

To enhance cost efficiency and speed-to-market, we have recently installed in our Dongguan manufacturing facility a high-speed automated packaging and warehousing system called "AAIR"[2], which applies comprehensive technologies to accelerate the packaging and delivery process thus reducing cost.

Our efficient manufacturing processes help us optimize manufacturing capacity, reduce manufacturing lead time and reinforce our core competitive advantages.

Multi-country Manufacturing Platform

We operate an internationally diverse manufacturing platform. When choosing locations to set up facilities, we consider a number of factors, including import and export tariffs, trade policies, political stability, operating costs, labour supply, infrastructure, level of productivity and cultural affinity, and geographical proximity to our Hong Kong headquarters.

Since our inception in the 1970s, we have gained considerable experience of operating scalable manufacturing facilities overseas. We ventured into Vietnam as early as 2003 and are now the largest international corporation in Vietnam in terms of export volume for apparel. Combining such early mover advantage, long years of international trade and operation experience, our multi-country, manufacturing platform has been one of the key drivers of our ability to attract and retain customers. We are able to meld the advantages of different manufacturing locations to support our customers' expansion efforts and their different growth strategies.

Generally, we set up manufacturing facilities in countries with relatively low operating costs and within a radius of five to six hours air travel from Hong Kong. We allocate production orders to facilities that can best deliver the optimal results. The skilled workforce and mature supply chain in China enable us to allocate to our China facilities orders requiring speedy fulfillment and complicated value-added processes. We allocate large quantity, basic style orders to our South and Southeast Asian manufacturing facilities where the operating costs are lower.

*Note 1: **LED** stands for light-emitting diode, a two-lead semiconductor light source*

*Note 2: "**AAIR**" stands for AGV (Automated Guided Vehicle), ASRS (Automated Storage & Retrieval System), IPS (Intelligent Packaging System), and RFID scanning gate (Radio-Frequency Identification).*

Currently, we have 20 manufacturing facilities in five countries, providing our customers with the choice afforded by such a geographically diverse manufacturing platform. The map below illustrates our multi-country network of production facilities:

Strategies and Future Prospects

Our diversified product portfolio gives us an important competitive advantage. In addition to strengthening our resilience and giving us the flexibility to avoid being over-reliant one or a few critical products and customers, it provides us significant opportunity to cross-sell and co-create with key customers. The cross-selling and co-creation help our customers to increase their sales, in return enabling us to grow in tandem with them and further strengthen our collaborative relationship. Such mutually beneficial relationships have resulted in strong market share gain and further cross-selling potential. Our diversified product portfolio will continue to offer us the opportunity to develop new product categories through a combination of manufacturing techniques and cross-promotion of existing as well as new products thus increasing further our scale, strengthening our existing relationships and winning us new customers. The significant size of our operations enables us to benefit from large economies of scale across the industry value-chain, including research and development, procurement, production, logistics and delivery. These attributes enhance our leading market position among customers and suppliers alike and also improve our bargaining position.

Although the global apparel manufacturing industry is highly fragmented as it is ever changing comprised as it is of many manufacturers with varying scales of operation, our leading market position enables us to take advantage of the opportunities to consolidate.

Our Growth Strategies

Focusing on Our Co-creation Business Model

Our co-creation business model is the cornerstone of our competitiveness, growth and development. We will devote substantial resources to it and build on our track record of research and development to maintain our competitive advantages and market leadership. We will continue to apply our deep knowledge of global fashion trends and market direction together with our insight into the product needs of our customers to introduce new and improved apparel products.

In this way, we aim to ensure that our offerings remain at the forefront of the latest market trends. We will achieve this through expanding our co-creation services into more product categories, such as sportswear and sports bras, and to more customers. We will enhance our value-added technologies, in particular in printing, washing and embroidery. We intend to strengthen our cross-product innovation capability and to seek breakthroughs in the cross-implementation of key manufacturing techniques or materials between product categories such as knitted jeans, athleisure products or sports intimate wear. In this way, we expect to be able to satisfy the demands of the different needs of our customers.

We are committed to investing significant resources in the infrastructure of our R&D activities. We plan to continue to strengthen the R&D capabilities at our current R&D facilities, including training and recruiting more R&D staff, upgrading existing R&D equipment and accumulating industry best practices and know-how. We also intend to develop specialized R&D centres in various locations to support our product development efforts across different product lines.

We launched a fabric R&D centre in Taiwan to seek breakthroughs in fabric science and intend to develop further our knitting R&D centre in Dongguan to research innovative knitting techniques. To strengthen our competitive position in the denim market, we are taking two initiatives: we will continue innovation through our well-established denim R&D centre in Zhongshan, and we intend to set up a R&D centre with our European-based technology partner, Jeanologia, to co-develop and speed up the commercialization of viable, sustainable washing technologies for future use in production. We will collaborate with Jeanologia to develop more environmentally friendly and sustainable technologies to be applied in the denim finishing process. Specifically, we intend to leverage Jeanologia's broad experience in laser technology to improve productivity further and enhance product diversity.

We believe cost efficiency and speed-to-market are vital to our long-term competitiveness. To this end, we will continue to offer selected customers the vendor-maneged inventory ("**VMI**") model, under which we actively monitor the inventory level at customers' warehouses through data-sharing systems and deliver goods to replenish our customers' inventory to appropriate levels.

Enhancing Our Product Mix

We will continue to apply our extensive experience in apparel manufacturing and our partnership with globally leading apparel customers to expand our product offerings and provide to our customers commercially successful products, through optimization of existing product portfolios and expansion of product offerings. For example, we will enhance the design and functionality of sports bras, and apply state-of-the-art circular knitting and whole garment knitting techniques in our sweater and lifestyle wear manufacturing processes.

We will expand into and gain market share in new product categories that we identify as complementary to our existing product portfolio and that have good growth potential. We will continue to pursue opportunities prudently to acquire strategic businesses globally, extending our reach to new markets, as we did in our acquisition of Vista in 2016 that has enabled us to expand into the fast-growing sportswear and outdoor apparel industry. In conjunction with our acquisition efforts, we also plan to internally develop new product categories to capture additional revenue opportunities. For example, we intend to use our expertise in denim jeans manufacturing to expand into casual bottom products through seeking possibilities of launching a new manufacturing facility for casual bottom products in Vietnam.

We will continue to meet or exceed our customers' requirements for quality and reliability of service and further enhance our ability to deliver diverse value-added services, such as R&D, product innovation, shortened time to market, advanced production management and VMI services. We believe these initiatives will enable us to maintain customer loyalty, achieve incremental sales and facilitate the launch of new products.

We believe that our rapid growth and success is partly attributable to our ability to identify and work with the right customers. We will continue to enlarge and diversify our customer base strategically. When selecting our customers, we consider and evaluate a number of factors, including their brand position, growth potential and innovation requirements.

Expand in Sportswear and Outdoor Apparel

Consumers have become more conscious of a healthy lifestyle and have been participating in sports activities on a regular basis, leading to rapid growth of the sportswear and outdoor apparel retail market. Brand customers have introduced "athleisure" wear, the combination of casual apparel design with the functionality of sportswear and outdoor apparel, that has gained wide popularity among consumers.

We have recently entered the fast-growing sportswear and outdoor apparel market through the acquisition of Vista in December 2016. We believe this will allow us to increase revenue and profitability by offering a wide range of sophisticated sportswear to meet our existing customers' changing needs better and to address a larger potential new customer pool. As we seek to continue our expansion into sportswear and outdoor apparel, we will focus on areas which present us with opportunities to deploy our core competency in multi-country manufacturing capabilities as well as the synergies expected to arise from our customer and product portfolios.

In 2017, our focus in this area was mainly on integrating the newly acquired company into our existing manufacturing platform while utilizing Vista's industry know-how and manufacturing technologies in sportswear and outdoor apparel. Moving forward, we will build upon the Company's established strong business relationships with globally leading sportswear and outdoor apparel brand companies as well as potential new customers. This will enable us to explore cross-selling opportunities in sportswear and outdoor apparel to our existing customers and to help them to develop new sports or athleisure product categories. We believe through creating synergies with our existing product portfolio, tapping into the sportswear and outdoor apparel market can help us generate higher revenue, enhance operational efficiency, and benefit from knowledge transfer across different product lines.

Expansion of Manufacturing Facilities Internationally

Taking advantage of the import-export duty, trade policies and low operating costs enjoyed by certain countries, we intend to expand our production capacities internationally, focusing on Asia.

To meet our customers' increasing demands, we intend to continue to expand our manufacturing capacities outside China, to take advantage of the low rates of import and export duty, trade policies and low operating costs. We currently have 5 expansion projects under construction, all of which are located in Vietnam and Bangladesh. These projects are expected to commence production by phases starting in the middle of 2018, with revenue contribution expected to commence in 2019.

We seek to establish ourselves as a trusted partner for our customers in China by delivering reliable, innovative services provided by our local capabilities. To this end, we intend to adopt a "China-China" strategy to optimize and enhance our existing capacities and services in China in order to meet better our customers' increasing needs arising from their China growth plans.

These additional manufacturing facilities will expand our manufacturing capacity in order to meet our rapid business growth.

Upstream Vertical Expansion to Generate Further Value

We have identified fabric production and innovation as highly complementary to our existing business portfolio and a strong driver of our future growth. We will closely monitor the trends of technology revolutions in the fabric industry and take part in core stages related to R&D.

Utilizing our insights into fabrics and materials accumulated in the apparel production process, we have recently launched a specialized fabric R&D centre in Taiwan in 2017 to explore and generate growth opportunities in the fabric industry. We aim to bring together fabrics specialists to develop novel materials to be applied in our production process and to suit our customers' needs. The research focuses of our Taiwan R&D centre include the development of synthetic materials with functional characteristics, such as quick drying, wind-resistant, anti-bacterial, and moisture management. We hope to commercialize our research in material sciences to enhance the quality and speed of our apparel production.

We intend to strengthen relationships with suppliers and jointly develop innovative raw materials to be applied in our production process, which will further differentiate us from our competitors while creating a barrier to entry. We also intend to expand into fabric production in suitable locations where we currently have manufacturing facilities. Once we identify a location, we will look for suitable land and apply for appropriate planning permissions prior to construction. The fabric production facilities are expected to commence operation approximately two years after the initial investment.

Focus on Our People and Sustainability

While we pursue our growth strategies, we also focus on implementing robust environmentally conscious practices and are committed to operating our business in a sustainable manner. We will continue to reduce our carbon footprint, increase energy efficiency, reduce water consumption and reduce material usage. We will continue to implement sustainable measures in production processes by utilizing the latest technologies and upholding our sustainability standards. Further disclosure of our performance in sustainability during the year can be found in the Environmental, Social and Governance Report section of this annual report.

We are fully committed to continuing to invest in our people by providing a continuous learning environment and offering more opportunities for our employees to pursue professional growth. As we expand into new geographic regions, we will continue to seek to develop expertise in the local markets through recruiting local staff. We will adhere to our corporate culture of caring "For the Greater Good" (大我為先) and aim to strive continuously to change ourselves, our Group, and ultimately our industry, for the better. We plan to continue to deliver exceptional value to customers on a global basis and conduct business with integrity, honesty and mutual respect.

Financial Review

Revenue

Revenue for the year ended 31 December 2017 amounted to US$2,178 million, representing an increase of US$415 million or about 23.5% when compared to US$1,763 million in 2016. About 46% of revenue growth was inorganic resulting from the acquisition of Vista, while denim and intimate segments contributed significantly.

The Group's products are categorized into five segments, namely, lifestyle wear, denim, intimate, sweater and sportswear and outdoor apparel. The following table provides a breakdown of the Group's revenue for 2017 and 2016 by product categories, each expressed as an absolute amount and as a percentage of total revenue:

	For the Years ended 31 December			
	2017		2016	
	US$'000	**%**	US$'000	%
Lifestyle wear	**799,835**	**36.7%**	748,488	42.4%
Denim	**560,230**	**25.7%**	484,152	27.5%
Intimate	**378,263**	**17.4%**	294,209	16.7%
Sweater	**209,565**	**9.6%**	223,131	12.7%
Sportswear and outdoor apparel (1)	**216,497**	**10.0%**	–	–
Others (2)	**13,604**	**0.6%**	13,412	0.7%
Total Revenue	**2,177,994**	**100.0%**	1,763,392	100.0%

(1) *On 30 December 2016, the Group officially launched its sportswear and outdoor apparel segment through the acquisition of Vista. Given the date of acquisition, such acquisition had no material impact on our revenue in 2016.*

(2) *Includes warehouse service income and income from trading of seconds.*

Lifestyle Wear

For the year ended 31 December 2017, revenue from sales of lifestyle wear amounted to US$800 million, representing an increase of US$52 million or 6.9% from US$748 million in 2016. The increase in revenue from sales of lifestyle wear resulted primarily from delivering more co-creation services and the generation of more orders from customers.

Denim

Revenue from sales of denim amounted to US$560 million for the year ended 31 December 2017, representing an increase of US$76 million or 15.7% from US$484 million in 2016. The increase in revenue was the consequence of generating more orders from existing customers under our co-creation business model, our environmentally friendly and sustainable denim manufacturing techniques catering to our customers' needs, and our enhanced customer penetration due to supplier consolidation by our customers.

Intimate

Revenue from sales of intimate increased from US$294 million in 2016 to US$378 million for the year ended 31 December 2017, representing an increase of US$84 million or 28.6%, which was mainly attributable to an increase in demand from our customers for commercially successful co-creation products.

Sweater

Revenue from sales of sweater decreased from US$223 million in 2016 to US$210 million for the year ended 31 December 2017, representing a decrease of US$13 million or 6.1%, almost wholly due to our declining certain less profitable orders for strategic reasons.

Sportswear and Outdoor Apparel

Revenue from sales of sportswear and outdoor apparel amounted to US$216 million for the year ended 31 December 2017. Since the acquisition of Vista was completed on 30 December 2016, there was no revenue in 2016.

The Group generates revenue from customers located in different regions and countries around the world. The Group's revenue is categorized based on the country of shipment destination of products. The breakdown of the Group's revenue for 2017 and 2016 by geographic region, each expressed as an absolute amount and as a percentage of total revenue, was as follows:

	For the Years ended 31 December			
	2017		2016	
	US$'000	%	US$'000	%
Asia Pacific (1)	844,402	38.8%	695,184	39.4%
United States	803,089	36.9%	614,072	34.8%
Europe (2)	451,302	20.7%	392,431	22.4%
Other countries/regions	79,201	3.6%	61,705	3.4%
Total Revenue	2,177,994	100.0%	1,763,392	100.0%

(1) Asia Pacific primarily includes Japan, the PRC, Hong Kong and South Korea.

(2) Europe primarily includes the U.K., Belgium and Germany.

For the year ended 31 December 2017, the Group's revenue from the Asia Pacific market amounted to US$844 million, representing an increase of US$149 million or 21.5%, driven by increased customer demand.

The Group's revenue from the United States market for the year ended 31 December 2017 amounted to US$803 million, representing an increase of US$189 million or 30.8%, which was mainly due to increased business with existing customers that has resulted from application of our co-creation philosophy.

The Group's revenue from the European market for the year ended 31 December 2017 amounted to US$451 million, representing an increase of US$59 million or 15.0% resulting from increased customer demand.

Cost of Sales

The cost of sales mainly comprises the cost of raw materials, staff cost for personnel directly involved in the Group's production activities, subcontracting cost, and depreciation of production equipment.

Cost of sales as a percentage of total revenue remained stable at 79.8% in 2016 and 79.7% in 2017. Cost of sales increased to US$1,736 million in 2017 (2016: US$1,408 million) driven by the increase in revenue.

Gross Profit and Gross Profit Margin

The Group's overall gross profit was US$442 million for the year ended 31 December 2017 (2016: US$356 million). The gross profit margin for the year ended 31 December 2017 remained relatively stable at 20.3% (2016: 20.2%).

Other Income

The Group's other income consists primarily of interest income, outward claims, gain or loss arising from changes in fair value/derecognition of derivative financial instruments, leftover sales, awards and government grants, and other items. For the year ended 31 December 2017, the Group had other income of US$9 million (2016: US$21 million), representing 0.4% of the Group's revenue for the year (2016: 1.2%).

Selling and Distribution Expenses

Selling and distribution expenses consist mainly of sample and marketing expenses, staff costs and other items. For the year ended 31 December 2017, selling and distribution expenses amounted to US$40 million (2016: US$32 million). Selling and distribution expenses as a percentage of total revenue remained stable at 1.8% (2016: 1.8%).

Administrative and Other Expenses

Administrative and other expenses comprise employee benefit expenses for the Group's administrative personnel, rental expenses and office administrative expenses, depreciation and amortization, travel and communication, legal and professional expenses, repairs and maintenance, staff recruitment and training, listing expenses and other items. For the year ended 31 December 2017, administrative and other expenses amounted to US$218 million (2016: US$ 196 million). Administrative and other expenses as a percentage of total revenue decreased by 1.1 percentage points to 10.0% in 2017 (2016: 11.1%), principally due to economies of scale.

Listing expenses of US$8 million for 2017 represented expenses incurred for the listing and were non-recurring in nature.

Finance Costs

Finance costs comprise interest expense on bank loans, bank import and export loans, bank overdrafts and imputed interest on consideration payable on the acquisition of subsidiaries. For the year ended 31 December 2017, finance costs increased by 241.3% to US$17 million (2016: US$5 million), primarily due to the loans incurred in relation to the acquisition of Vista. During the year, the Group's effective borrowing rate ranged from 2.64% to 5.25% per annum (2016: the effective borrowing rate ranged from 2.2% to 5.25% per annum).

Net Profit for the Year

As a result of the cumulative effect of the above factors, the Group's net profit for the year ended 31 December 2017 increased by 20.1% to US$149 million (2016: US$124 million). The net profit margin was 6.8% for the year ended 31 December 2017 (2016: 7.0%).

Liquidity and Financial Resources

The Group maintains a strong and healthy financial position. In the year ended 31 December 2017, net cash generated from the Group's operating activities amounted to US$173 million (2016: US$199 million). Cash and cash equivalents of the Group at 31 December 2017 were US$413 million (2016: US$144 million).

Bank borrowings amounted to US$530 million at 31 December 2017 (2016: US$478 million). The new bank borrowings were utilised to finance expansion of production capacity.

Gearing Ratio

Equity attributable to the Company amounted to US$911 million at 31 December 2017 (2016: US$308 million). The favourably positive cash flow of the Group in 2017 has led to a net debt to equity ratio (total interest-bearing bank borrowings less bank balances and cash divided by total equity) of 12.5% (2016: 106.4%).

Use of Proceeds from the Initial Public Offering

Net proceeds from the issue of new shares of the Company for listing on the Stock Exchange on the Listing Date amounted to HK$3,809 million, after deducting related share issuance expenses of HK$188 million. These proceeds were utilized during the year ended 31 December 2017 in accordance with the proposed allocation set out in the prospectus of the Company dated 23 October 2017 (the "**Prospectus**"):

- HK$1,714 million (45% of our total net proceeds) are being used for funding capital expenditures in connection with the expansion of manufacturing capacity;
- HK$762 million (20% of our total net proceeds) are being used for the upstream vertical expansion into fabric production in Asia;
- HK$952 million (25% of our total net proceeds) are being used for repaying Vista related loans;
- HK$381 million (10% of our total net proceeds) are being used for our working capital and general corporate purposes.

For the period from the Listing Date to 31 December 2017, the Group's total cost of expansion of manufacturing capacity and repaying Vista related loans amounted to HK$925 million. Unutilized net proceeds at 31 December 2017 were deposited in licensed banks. The directors of the Company intend to utilize such net proceeds in the manner disclosed in the Prospectus.

Working Capital Management

The cash conversion cycle for 2017 was 63 days (2016: 67 days).

In 2016, no cost of sales from Vista was included in the accounts yet its inventory was included at 31 December 2016. This had the effect of increasing the inventory days in 2016 to 54 days. In 2017, both cost of sales and inventory for Vista have been included, resulting in a reduction of inventory turnover days to 49 days. Excluding the impact of the acquisition of Vista, inventory turnover days decreased from 52 days in 2016 to 50 days in 2017.

The decrease in trade and bills receivables turnover days from 47 days for 2016 to 44 days for 2017 resulted mainly from the recording of an increase in trade and bills receivables attributable to the acquisition of Vista on 30 December 2016 while both the trade and bills receivables and revenue of Vista have been accounted for in 2017. Excluding the impact of the acquisition of Vista, trade and bills receivables turnover days remained stable at 46 days in both 2016 and 2017.

The decrease in trade and bills payables turnover days from 34 days for 2016 to 30 days for 2017 resulted principally from the recording of an increase in trade and bills payables attributable to the acquisition of Vista on 30 December 2016. Both the trade and bills payables and cost of sales of Vista have been accounted for in 2017. Excluding the impact of Vista, the trade and bills payables turnover days decreased from 33 days in 2016 to 32 days in 2017.

Exposure to Foreign Exchange

The Group has in place a policy of hedging to manage foreign exchange exposure. Since the Group's sales and purchases are both mainly settled in United States dollars, net exposure to foreign exchange risk is insignificant. As such, no hedging activity was conducted in 2017.

Capital Expenditure and Capital Commitments

The Group's capital expenditure is used primarily for the expansion of its manufacturing capacity, including the construction of additional manufacturing facilities, and the upgrading of existing machinery and equipment. The Group finances capital expenditure primarily with cash generated from operations and bank loans. For the year ended 31 December 2017, the Group's total capital expenditure amounted to US$154 million (2016: US$290 million).

The Group's capital commitments primarily relate to the acquisition of property, plant and equipment. At 31 December 2017, the Group had contracted capital commitments of US$53 million in relation to the acquisition of properties, plant and equipment (2016: US$43 million).

Contingent Liabilities

At 31 December 2017, the Group had no material contingent liability (2016: Nil).

Employment, Training and Development

At 31 December 2017, the Group employed approximately 75,000 employees. Total staff costs, including administrative and management staff, accounted for 24.2% (2016: 25.8%) of the Group's sales during the year. The Group remunerates its staff according to their performance, qualifications and industry practices, and conducts regular reviews of its remuneration policy. Employees may receive discretionary bonuses and monetary rewards based on their ratings in annual performance appraisals. The Group also offers rewards or other incentives to motivate the personal growth and career development of employees, such as ongoing opportunities for training to enhance their technical and product knowledge as well as their knowledge of industry quality standards. Each new employee of the Group is required to attend an introductory course, while there are also various types of training courses available to all employees of the Group.

Events Occurring after the Reporting Period

At the date of this annual report, no material event has occurred after the reporting period.

Directors and Senior Management

Directors

At 15 March 2018, the Board consists of 9 directors, comprising 5 executive directors and 4 independent non-executive directors. The functions and duties of the Board include convening general meetings, implementing the resolutions passed at general meetings, determining strategy, business and investment plans, formulating the annual financial budget, reviewing and approving financial accounts, and formulating proposals for profit distributions as well as exercising other powers, functions and duties as conferred by the Articles of Association.

Executive Directors

Mr. Lo Lok Fung Kenneth (羅樂風) ("Mr. Lo"), aged 79, is the chairman of our Board and an executive director. He is also the chairman of the Nomination Committee of the Company and a member of the Remuneration Committee. He co-founded the Group with Mrs. Lo in 1970. Mr. Lo has been a director of the Company since its establishment in January 1993. With over 60 years of experience in the apparel manufacturing industry, Mr. Lo has been instrumental in developing the Group into a world leader. Mr. Lo stepped down as our Chief Executive Officer in December 2007. As Chairman, Mr. Lo has assumed the role of strategic thinker and change driver — he devotes his time to identifying and anticipating opportunities and risks in our industry and how they may have an impact on our business. In addition, Mr. Lo is committed to developing and driving our corporate culture, business ethics and sustainability, which are memorialized in his book "For The Greater Good — Becoming The World's No. 1 Apparel Maker", published in 2016.

Mr. Lo was conferred the Industrialist of the Year Award of the Federation of Hong Kong Industries in 2012 for his contribution to industrial development and to society. He won the Ernst & Young Entrepreneur of the Year China Award (Hong Kong/Macau Region) in 2014 and the DHL/SCMP Hong Kong Business Award (Owner-Operator Category) in 2016.

Mr. Lo is currently an honorary fellow of Vocational Training Council in Hong Kong, as well as a guest professor in Yunnan University (雲南大學). He is also the honorary chairman of the CEO Club of The Hong Kong Polytechnic University, a fellow of Hong Kong Management Association, the honorary president of the Hong Kong Woollen and Synthetic Knitting Manufacturers' Association, Limited as well as a general committee member of the Textile Council of Hong Kong. In addition, Mr. Lo has also involved in charity work and environmental protection. He has been a director and chairman of Windshield Charitable Foundation (宏施慈善基金) since November 2001, and a director of World Green Organisation Limited since May 2013.

Mr. Lo is the husband of Mrs. Lo, our vice chairman and executive director, and father of Mr. Andrew Lo, the executive director and chief executive officer, and Mr. Howard Lo, a senior vice president of the Group.

Mrs. Lo Choy Yuk Ching Yvonne (羅蔡玉清) ("Mrs. Lo"), aged 73, is the vice chairman of our Board and an executive director. She co-founded the Group with Mr. Lo in 1970. Mrs. Lo has been a director of the Company since its establishment in January 1993. Since our establishment, Mrs. Lo has overseen our finance and administrative functions and has over 50 years of business management experience. Mrs. Lo was awarded an Honorary Fellowship by Canadian Chartered Institute of Business Administration (CCIBA) and an Honorary Doctorate of Management by Lincoln University in September 2009. Mrs. Lo was also rewarded the title of Chinese Business Leader by the Asia College of Knowledge Management in 2016.

Apart from business management, Mrs. Lo has also devoted herself to charity and social work. She established the Yuk Ching Charity Trust (玉清慈善基金) (now known as The Incorporated Trustees of Yuk Ching Charity Trust), which aims to help the education of students by, among other activities. providing financial support, and has been its donor and trustee since October 2004, and chairman since 2005. Since February 2017, Mrs. Lo has been the honorary chairperson of The Hong Kong Federation of Women (香港各界婦女聯合協進會).

Mrs. Lo is the wife of Mr. Lo, the chairman and executive director and mother of Mr. Andrew Lo, our executive director and chief executive officer, and Mr. Howard Lo, a senior vice president of the Group.

Mr. Lo Ching Leung Andrew (羅正亮) ("Mr. Andrew Lo"), aged 52, is the chief executive officer of the Group and has been an executive director since March 1994. With almost 30 years of experience in the apparel manufacturing industry, Mr. Andrew Lo is now primarily responsible for formulating and overseeing the overall development strategies and operation of the Group. Mr. Andrew Lo first joined the Group in 1988 and started in the production department of sweater division and has since risen through the ranks. He has also served as deputy chief executive officer of the Group from 2003 to 2007, and was promoted to chief executive officer of the Group in 2008. He is the chairman of the Corporate Development Committee of the Company.

Mr. Andrew Lo served as a softgoods sub-committee member of The Hong Kong Exporters' Association from 2003 to 2007, as well as a director of the Hong Kong Research Institute of Textiles and Apparel from 2010 to 2016. He has been a director of the Textile Council of Hong Kong Limited since 2014. Mr. Andrew Lo is currently a member of the Textiles Advisory Board and a member of the Trade and Industry Advisory Board.

Mr. Andrew Lo was appointed as a member of the 5th committee of the Chinese People's Political Consultative Conference of Huicheng District, Huizhou City (中國政治協商會議惠州市惠城區委員會第五屆委員) and a council member of the Better Hong Kong Foundation in 2012. Since 2016, he has served as a member of the PolyU Court of Hong Kong Polytechnic University.

Mr. Andrew Lo graduated from the University of Toronto with a bachelor's degree in arts in June 1988. He is the son of Mr. Lo, the chairman and executive director, and Mrs. Lo, our vice chairman and executive director, and brother of Mr. Howard Lo, a senior vice president of the Group.

Mr. Wong Chi Fai (王志輝) ("Mr. Frankie Wong"), aged 58, has been an executive director of the Group since March 1994 and is mainly responsible for overseeing the Group's innovation development and productivity enhancement, supporting corporate functions and setting up strategies and governance policy. Mr. Frankie Wong joined the Group and served as the senior officer of the denim division from November 1982 and has since risen through the ranks. He then served as overseas plant manager from 1986 to 1988 and general manager of the denim division from 1988 to 1994. He was promoted to executive director of the Group in 1994 and was responsible for overseeing the lifestyle wear division until 2007 and the denim division until 2015. He is also a member of the Corporate Development Committee of the Company.

With over 30 years of experience in the apparel manufacturing industry, Mr. Frankie Wong currently serves as a member of the board of The Hong Kong Research Institute of Textiles and Apparel Limited to which he was appointed in September 2016. He was also awarded the title of Honorary Citizen of Zhongshan City (中山市榮譽市民) in 2013 for his great contributions to the economic and social development of the city.

Mr. Wong Sing Wah (黃星華) ("Mr. Dennis Wong"), aged 54, has been an executive director of the Group in January 2011 and is primarily responsible for overseeing the lifestyle wear and the sweater divisions, supporting corporate functions and setting up strategies and governance policy. Mr. Dennis Wong initially joined the Group as an assistant merchandiser of the sweater division in May 1983. He then served as overseas sales manager from 1986 and later overseas operation manager until 1990. Mr. Dennis Wong re-joined the Group in June 1996 as sales manager of the lifestyle wear division, where he has held various positions since then. He served as sales senior manager until March 2000, later assistant general manager of Japan operation until August 2003, and then deputy general manager of Japan operation until January 2004, and then deputy general manager of operation until October 2004, and then general manager of sales and operations until June 2007 and subsequently, and the president until December 2011. He is a member of the Corporate Development Committee of the Company.

Mr. Dennis Wong was awarded the title of "2013 Top Ten Economic Individual of Dongguan City" (2013年東莞十大經濟人物), and served as the vice chairman of the 1st supervisory committee of the Dongguan City Association of Enterprises with Foreign Investment Changping Branch (東莞市外商投資企業協會常平分會) in 2010.

Independent Non-executive Directors

Mr. Griffiths Anthony Nigel Clifton ("Mr. Griffiths"), aged 74, was appointed an independent non-executive director in September 2002. He is the chairman of the Audit Committee and a member of the Nomination Committee of the Company. Mr. Griffiths joined Shui On Group when Harbour Engineering and Construction Co., Ltd., where he was a director, was acquired by the Shui On Group in February 1982. He had held various positions at the Shui On Group including finance and executive director until 1984 and managing director of certain subsidiaries until August 1986. When Shui On Construction and Materials Co., Ltd. (currently known as SOCAM Development Limited) listed on the Stock Exchange in 1997 (stock code: 0983), he joined the board as an independent non-executive director. He was appointed as the chairman of its audit committee and remuneration committee in 1998 and 2002 respectively, and continued in these capacities until May 2010 when he stepped down. From September 1986, Mr. Griffiths worked as the managing director at GML Consulting Ltd., a company engaged in general management and human resources consulting, until August 2002. He has served as an independent non-executive director of Manulife Provident Funds Trust Company Limited since May 2000 and was re-designated the independent director in December 2000. Mr. Griffiths has been a fellow of The Hong Kong Institute of Directors since 2000. Mr. Griffiths has also been a member and fellow of The Institute of Chartered Accountants in England and Wales since 1967 and a member of the executive committee of the Hong Kong Coalition of Service Industries from 1991 to 2002, as well as a vice chairman from 1997 to 2002.

Mr. Tse Man Bun Benny (謝文彬) ("Mr. Tse"), aged 75, was appointed an independent non-executive director in January 2005. He is a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Tse has over 40 years' experience in the banking industry. He worked for The Hongkong and Shanghai Banking Corporation Limited, Hong Kong (HSBC) from 1968 until his retirement in 2002. During his service with HSBC, he held various key positions, including senior credit manager, district manager, managing director - Wayfoong Finance Limited and Wayfoong Credit Limited, area manager of Retail Banking, senior executive of Corporate and Institutional Banking and senior executive - Commercial Banking. After his retirement from HSBC, he served as a director and chief executive officer of Allied Banking Corporation (Hong Kong) Limited from April 2003 to October 2004. In December 2004, he joined SEA Holdings Limited, a company engaged in property investment and development which is listed on the Stock Exchange (Stock Code: 0251), serving as an executive director before being designated a non-executive director until he resigned in May 2009.

Mr. Tse is currently also an independent non-executive director of HSBC Insurance (Asia) Limited (appointed in August 2003), HSBC Life (International) Limited (appointed in August 2007) and Hong Kong International Construction Investment Management Group Co., Limited (formerly known as Tysan Holdings Limited), a company engaged in foundation piling, property investment and development that is listed on the Stock Exchange (Stock Code: 0687) (appointed in September 2004). Since January 2006, he has served as an independent non-Executive Director of China Fishery Group Limited, which is listed on the Stock Exchange of Singapore (SGX:B0Z). According to the announcements published by China Fishery Group Limited, China Fishery Group Limited, together with its various non-Peruvian subsidiaries, have filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code, while a consensual restructuring of its key Peruvian subsidiaries is being pursued in a transparent and sustainable manner in Peru. A trustee has been appointed for one of its subsidiaries which have filed for the Chapter 11 relief. At the date of this annual report, the plan of reorganization for the Chapter 11 proceedings is still on-going.

Mr. Chang George Ka Ki (張家騏) ("Mr. Chang"), aged 65, was appointed an independent non-executive director in November 2007. He is a member of the Audit Committee, the Remuneration Committee and the Corporate Development Committee of the Company. Mr. Chang has spent much of his career in accounting and auditing thus possesses solid professional knowledge in these areas. He also served as the deputy group controller of the Group from 1984 to 1986.

Mr. Chang has been a director at Morningside Asia, a venture capital firm, since September 1991 and, since March 2015, a non-executive director of Hang Lung Group Limited, a company engaged in property development and investment and listed on the Stock Exchange (Stock Code: 0010). Mr. Chang has been a certified public accountant recognized by the State of California, U.S. since 1980 and a member of the American Institute of Certified Public Accountants since 1984. He has also been an associate member of the Hong Kong Institute of Certified Public Accountants since 1984, and a chartered accountant and a member of the Institute of Chartered Accountants of Ontario since 1992. Mr. Chang graduated from the University of Wisconsin Madison and obtained a master's degree in business administration in December 1976.

Mr. Mak Wing Sum Alvin (麥永森) ("Mr. Mak"), aged 65, was appointed an independent non-executive director on 1 July 2012. After working in Citibank for over 26 years, Mr. Mak retired on 1 May 2012. He is the chairman of the Remuneration Committee and a member of the Nomination Committee and the Corporate Development Committee of the Company. He last served as the Head of Markets and Banking for Citibank Hong Kong, being the country business manager for corporate and investment banking business. In Citibank, he held various senior positions including Head of Global Banking responsible for managing all the coverage bankers. Prior to that, he also managed the Hong Kong corporate finance business, the regional asset management business and was the Chief Financial Officer of North Asia. Mr. Mak is also an independent non-Executive Director of the following companies which are all listed on the Stock Exchange: Luk Fook Holdings (International) Limited (Stock Code: 0590), I.T Limited (Stock Code: 0999), Lai Fung Holdings Limited (Stock Code: 1125), Hong Kong Television Network Limited (Stock Code: 1137) and Goldpac Group Limited (Stock Code: 3315).

Mr. Mak is a Chartered Accountant and a member of the Institute of Chartered Accountants of Ontario and a member of the Hong Kong Institute of Certified Public Accountants. He has also been a member of the Hong Kong Housing Society since May 2015 and is recently a member of certain of its committees. Mr. Mak graduated from the University of Toronto and obtained a bachelor's degree in commerce in 1976.

Senior Management

The executive directors and senior management are responsible for the day-to-day management and operation of the business.

Mr. Lee King Fai (李景輝) ("Mr. Lee"), aged 55, was appointed chief financial officer in February 2014 and company secretary on 7 April 2017. Prior to joining the Group, Mr. Lee was the finance director of Wrigley Confectionary (China) Limited, a subsidiary of Mars, Inc., which engages in the manufacturing and the distribution of confectionary products in China, from 2009 to 2014. Previously, he had worked for Bristol-Myers Squibb (Hong Kong) Limited, the Hong Kong operations of a world leading pharmaceutical company, as finance director, and as finance director of Mead Johnson Nutritionals (China) Limited, its infant formula subsidiary in China. Prior to these appointments, Mr. Lee worked for a number of renowned companies including Deloitte, Shell, PepsiCo Restaurant International (now Yum! Brands), Fletcher Challenge Steel (China) Limited and Campbell Soup Asia Limited in Hong Kong, China and Asia Pacific. He is a member of the Corporate Development Committee of the Company.

Mr. Lee graduated from The Chinese University of Hong Kong in 1985 with a bachelor's degree with honors in business administration. He later obtained a master's degree in business administration at the same university in 1988. Mr. Lee has been a member of The Hong Kong Institute of Certified Public Accountants since 1995, a fellow of CPA Australia since 2003, a fellow of The Association of Chartered Certified Accountants (ACCA) since 2008 and a member of Chartered Institute of Management Accountants (CIMA) since 2012.

Mr. Lo Wing Sing Eddie (盧永盛) ("Mr. Eddie Lo"), aged 58, was appointed the president of our intimate division in May 2006 and is mainly responsible for overseeing the overall operation of the intimate division. Mr. Eddie Lo joined the Group in March 2003 and has held various positions. He served as the general manager from 2003 and was later promoted to president of the ACCI group. He was then transferred as acting president of the intimate division from June 2005 to April 2006. Mr. Eddie Lo was promoted to president of the intimate division in April 2006. Before joining the Group, Mr. Eddie Lo worked at Glorious Sun Enterprises Ltd., which is listed on the Stock Exchange (Stock Code: 0393), serving as the general manager and a director of its subsidiary Jeanswest Corporation Pty. Ltd., an apparel retailing company.

Mr. Wong Ho (黃河) ("Mr. Wong"), aged 51, was appointed the president of the denim division in January 2016. Mr. Wong joined the Group as a quality control supervisor of the lifestyle wear division in October 1992 and has held various positions. He was transferred to the denim division and serving as operation manager from 1999 prior to being promoted to general manager. Mr. Wong obtained a higher diploma in textiles and clothing studies from the Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) in 1989.

Mr. Lo Howard Ching Ho (羅正豪) ("Mr. Howard Lo"), aged 39, was appointed a senior vice president of sales and operations in April 2014. Mr. Howard Lo joined the Group as an executive trainee from September 2005 to 2007. He was then transferred to the lifestyle wear division and served as assistant manager-merchandising from April 2007 to August 2007, assistant general manager of sales from September 2007 to July 2008, assistant general manager from August 2008 to December 2010 and the general manager of sales and operations from January 2011 to March 2014. Before joining the Group, Mr. Howard Lo worked at Citigroup from 2001 to 2005. He received the Young Industrialist Awards of Hong Kong in 2016.

Mr. Howard Lo graduated from the University of Toronto with a bachelor's degree in commerce in June 2001. Mr. Howard Lo is the son of Mr. Lo, the chairman and executive director, and Mrs. Lo, the vice chairman and executive director, and brother of Mr. Andrew Lo, the executive director and the chief executive officer.

Company Secretary

Please see "— Senior Management — Mr. Lee King Fai (李景輝)" above.

Report of the Directors

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

Company Incorporation and Initial Public Offering

The Company was initially incorporated in Bermuda on 4 January 1993. In anticipation of the listing of shares on the Stock Exchange, the Company re-domiciled and was registered by way of continuation as an exempted company in the Cayman Islands on 29 December 2016 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company's shares were listed on the Main Board of the Stock Exchange on 3 November 2017.

Principal Activities

The principal activity of the Company is investment holding and the principal activities of its principal subsidiaries are set out in note 39 to the consolidated financial statements.

Business Review

A review of the business of the Group during the year and a discussion of the Group's future business development are set out in the Chairman's Statement as well as the Management Discussion and Analysis on pages 4 to 7 and pages 8 to 19 of this annual report. Commentary on the Group's relationships with its key stakeholders is given in the Chairman's Statement on pages 4 to 7 of this annual report. An analysis of the Group's performance during the year using key financial information is set out in the Financial Highlights on page 2 of this annual report. The Group has experienced no significant events after the end of the financial year ended 31 December 2017 and up to the date of this annual report that would materially affect the state of its financial affairs.

Results and Dividends

The results of the Group for the year ended 31 December 2017 are set out in the consolidated financial statements on pages 75 to 153 of this annual report.

The Board has recommended to pay the shareholders of the Company a final dividend of HK$0.123 per ordinary share for the year ended 31 December 2017, amounting to a total of approximately HK$350,897,000 (equivalent to approximately US$44,890,000), representing a distribution of 30.2% of the Group's net profit for the year ended 31 December 2017. Subject to the approval of the proposed final dividend by the shareholders of the Company at the annual general meeting (the "**AGM**") to be held on Friday, 15 June 2018, the proposed final dividend is expected to be paid on Friday, 6 July 2018.

Closure of Register of Members for Entitlement to Attend and Vote at the Annual General Meeting and to the Final Dividend

The AGM of the Company will be held on 15 June 2018. Notice of the AGM will be sent to its shareholders in due course. For the purpose of determining shareholder's eligibility to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 12 June 2018 to Friday, 15 June 2018, both days inclusive, during which period no transfer of shares will be registered. In order to qualify to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 pm on Monday, 11 June 2018.

For the purpose of ascertaining shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Friday, 22 June 2018 to Monday, 25 June 2018, both days inclusive, during which period no transfer of shares will be registered. To qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30pm on Thursday, 21 June 2018.

Financial Summary

A summary of the published results and of the assets and liabilities of the Group for the last four years is set on page 154 of this annual report.

Share Capital

Details of the movements in the share capital of the Company are set out in note 22 to the consolidated financial statements.

Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 41 to the consolidated financial statements.

Distributable Reserves

At 31 December 2017, the reserves of the Company available for distribution to its shareholders amounted to approximately US$637 million (2016: US$103 million).

Donations

Charitable donations made by the Group during the year ended 31 December 2017 amounted to US$1 million (2016: US$1 million).

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Sale or Redemption of The Company's Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities since the Listing Date and up to 31 December 2017.

Subsidiaries

Details of the Company's principal subsidiaries at 31 December 2017 are set out in note 39 to the consolidated financial statements.

Major Customers and Suppliers

During the year ended 31 December 2017, sales to the Group's five largest customers accounted for approximately 61.7% of the Group's total sales for the year (of which sales to the Group's largest customer accounted for approximately 32.9%). Purchases from the Group's five largest suppliers accounted for approximately 28.7% of the Group's total purchases for the year (of which purchases attributable to the largest supplier accounted for approximately 10.6%).

To the best knowledge of the Directors, none of the Directors nor any of their respective associates nor any shareholder owning more than 5% of the Company's issued share capital, had any interest in any of the Group's five largest customers or suppliers during the year ended 31 December 2017.

Retirement Benefit Schemes

The Group operates a Mandatory Provident Fund Scheme ("**MPF Scheme**") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The Group also participates in defined contribution retirement schemes organised by the relevant local government authorities in the PRC and other jurisdictions where the Group operates. The Group also operates one defined benefit retirement scheme (that is closed to new members) in the UK. Particulars of the retirement benefit schemes are set out in note 25 to the consolidated financial statements.

Directors

The directors during the year ended 31 December 2017 and up to the date of this annual report are:

Executive Directors

Mr. LO Lok Fung Kenneth *(Chairman)*
Mrs. LO CHOY Yuk Ching Yvonne *(Vice Chairman)*
Mr. LO Ching Leung Andrew *(Chief Executive Officer)*
Mr. WONG Chi Fai
Mr. WONG Sing Wah

Independent Non-executive Directors

Mr. GRIFFITHS Anthony Nigel Clifton
Mr. TSE Man Bun Benny
Mr. CHANG George Ka Ki
Mr. MAK Wing Sum Alvin

In accordance with Article 16.18 of the Articles of Association, Mrs. Lo, Mr. Frankie Wong and Mr. Tse shall retire at the AGM. All of the above retiring directors, being eligible, will offer themselves for re-election at the forthcoming AGM of the Company.

The Company has received confirmation from all independent non-executive directors of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive directors to be independent.

Directors', Senior Management's and Company Secretary's Profiles

Profiles of the directors of the Company, the senior management and company secretary of the Group are set out on pages 26 to 31 of this annual report.

Directors' Service Agreements

Each executive director has entered into a service agreement with our Company on 6 October 2017 and letters of appointment have been issued to each independent non-executive director. The service agreements with each executive directors and the letters of appointment to each independent non-executive directors are for an initial fixed term of one year commencing from 6 October 2017 which will be automatically renewed for another twelve months unless terminated otherwise. The service agreements and the letters of appointment are subject to termination in accordance with their respective terms. The service agreements may be renewed in accordance with the Articles of Association and the applicable Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The emoluments of directors have been determined with reference to the skills, knowledge and involvement in the Company's affairs, the performance of each director and prevailing market conditions during the year.

Save as disclosed above, none of the directors has entered, or has proposed to enter, a service agreement with any member of the Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2017.

Share Award Schemes

The Company's share award scheme ("**Share Award Scheme A**") was adopted pursuant to a resolution passed on 28 December 2016 for the primary purpose of providing incentives to eligible employees of the Group.

On 28 December 2016, 128 shares of the Company (the "**Incentive Shares**"), representing 1.067% of the then issued shares of the Company were transferred from Crystal Group Limited, the ultimate holding company, to eligible employees pursuant to Share Award Scheme A. No consideration was paid by the grantees for the grant of the Incentive Shares. All Incentive Shares vested immediately as there was no vesting requirement under Share Award Scheme A.

The Company adopted a further share award scheme ("**Share Award Scheme B**") in April 2017 and appointed an independent professional trustee (the "**Trustee**") to assist with the administration and vesting of shares to be awarded pursuant to Share Award Scheme B. The purpose of Share Award Scheme B is to recognize the Group's existing and past executives, consultants or officers for their past service and contribution to the Group, to motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group and to provide the opportunity to own equity interests in the Company.

Share Award Scheme B is valid and effective for a period of ten years, commencing from the date of the first grant of shares under this scheme. During the year ended 31 December 2017, 13,062,000 shares have been granted to 93 persons who are eligible under Share Award Scheme B, details of which are set out in note 29 to the consolidated financial statements.

Permitted Indemnity Provision

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

Directors' Material Interests in Transactions, Arrangements and Contracts that are Significant in relation to the Company's Business

Save for the related party transactions disclosed in note 37 to the consolidated financial statements, no director and/or any of his/her connected entities had a material interest, whether directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party at the end of the year or at anytime during the year.

Non-exempt Continuing Connected Transactions

A number of continuing agreements and arrangements with connected persons (as defined under Chapter 14A of the Listing Rules) have been entered into in the ordinary and usual course of business. Upon the listing of the Shares on the Stock Exchange, the transactions disclosed under this section constituted non-exempt continuing connected transactions under Chapter 14A of the Listing Rules.

The following table sets out the amounts of the Group's non-exempt continuing connected transactions for the year ended 31 December 2017:

	Connected persons	Nature of transactions	Transaction amount US$'000	Annual cap US$'000
1.	Tanbo Development Limited	Expense paid/payable for lease of premises	60	
	Happy Field Company Limited	Expense paid/payable for lease of premises	605	
	Joint Access Limited	Expense paid/payable for lease of premises	539	
	Sinotex Corporation Limited	Expense paid/payable for lease of premises	1,841	
		Sub-total	3,045	3,200
2.	Masterknit Limited	Income received/receivable for provision of management services	513	646
3.	Masterknit Limited	Income received/receivable for subcontracting services	199	2,810
4.	Masterknit Limited	Income received/receivable for material sourcing	Nil	Nil
5.	Masterknit Limited	Expense paid/payable for lease of equipment	25	169

The following transactions between certain connected parties (as defined in the Listing Rules) and the Company constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules.

1) *Leases with Shareholders' Entities*

On 1 January 2017, the Group, as tenants, entered into a lease with Sinotex Corporation Limited, an entity controlled by the Controlling Shareholders[1]. On 1 April 2017, the Group, as tenants, entered into various leases with Tanbo Development Limited, Joint Access Limited and Happy Field Company Limited, entities controlled by the Controlling Shareholders[1] (the "**Shareholder Entities**"). Pursuant to the leases with the entities above (the "**Leases with Shareholders' Entities**"), the Shareholders' Entities, as landlords, agreed to lease the premises for office, warehouse and living quarters purposes, the lease terms of which are all not more than three years. Since the Shareholders' Entities are connected persons of the Company, and the transactions with these entities are of a similar nature, such transactions will be aggregated and treated as if they were one transaction, pursuant to Rules 14A.82(1) and 14A.83 of the Listing Rules.

The proposed annual caps for leasing arrangements under the Leases with the Shareholders' Entities for each of the years ending 31 December 2018 and 2019 will be US$3.2 million and US$3.2 million respectively. In determining the annual cap for leasing the properties under the Leases with Shareholders' Entities as listed in the table above, the directors have considered the pricing terms of the lease agreements. DTZ Cushman & Wakefield Limited, the property valuer for the Company, has confirmed that the rent payable under the Leases with Shareholders' Entities reflects prevailing market rates. The directors confirm that the annual rent payable is determined on normal commercial terms and with reference to market price.

*Note 1: "**Controlling Shareholders**" collectively refers to Mr. Lo, Mrs. Lo and Crystal Group Limited.*

2) Agreements with Masterknit

Set out below are (a) provision of general services to Masterknit Limited ("**Masterknit**"); (b) sub-contracting transactions between the Group as the sub-contractor and Masterknit as the customer; (c) materials sourcing transactions between the Group as the supplier and Masterknit as the purchaser; and (d) equipment leasing from Masterknit. There were no historical figures for the below transactions with Masterknit as (i) Masterknit and the Company were independent third parties until CGL, through its wholly-owned subsidiary, acquired 60% interest in Masterknit in July 2017; (ii) the Company does not develop and manufacture shoe products and therefore did not have business relationships with Masterknit, that is mainly engaged in developing and producing flat knitted shoe upper products. These agreements have been entered into after considering, among other matters, the potential revenue growth of Masterknit. Masterknit's revenue in relation to knitted shoe upper products has grown substantially by more than 100% for the year ended 31 December 2017 compared to the year ended 31 December 2016. Considering the business size and scale of this leading international sportswear brand, the growth of their knitted shoe upper products, as well as the expectations of successfully selling knitted shoe upper products to other international sportswear brand(s), the growth of Masterknit is expected to be substantial in 2018 and 2019.

(a) the General Services Agreement

On 1 July 2017, the Group entered into a general services agreement with Masterknit, pursuant to which various services will be provided to Maskterknit including, among others, IT system support, data processing, analysis, general administrative services, human resource support, research and development and logistics. The term of the agreement is 1 July 2017 to 31 December 2019. The fees for general services are determined based on a percentage of Masterknit's quarterly revenue.

The directors have estimated that the maximum fee payable by Masterknit to the Group in relation to such general services provided to Masterknit for each of the two years ending 31 December 2018 and 2019 will not exceed US$1,920,000 and US$3,264,000 respectively. In determining the annual cap as listed in the table above, the directors have considered (i) the historical volume of orders placed by customers with Masterknit; (ii) the further increase of orders from Masterknit's existing customers; (iii) Masterknit's potential growth of new customer portfolios; and (iv) the Group's costs of a similar nature and Masterknit's historical costs.

(b) the Framework Sub-contracting Services Agreement

Parties: The Group (as the sub-contractor); and Masterknit (as the customer)

Principal terms: The Group has entered into a framework sub-contracting services agreement with Masterknit, pursuant to which the Group provides sub-contracting services to Masterknit from time to time. The term of the agreement is 1 October 2017 to 31 December 2019.

Reasons for the transaction: As the Group possesses expertise in garment manufacturing and the Group is moving into manufacture of sportswear and accessories. The cooperation with Masterknit will enable the Group to gain experience of knitted shoe upper manufacture while Masterknit, lacking its own manufacturing capability, requires reputable sub-contractors.

Pricing policy: The sub-contracting fees are determined with reference to comparable processing charges by third-party sub-contractors that are providing similar services to Masterknit.

Annual Caps: The maximum aggregate annual sub-contracting services fee payable by Masterknit for the respective periods below shall not exceed the caps set out below:

	Year ended 31 December	
	2018	2019
	US$'000	US$'000
Total sub-contracting amount	13,485	26,711

Basis of Caps: In determining the above annual caps, the directors have considered (i) the historical volume of orders placed by customers with Masterknit; (ii) the sales forecast from Masterknit's existing and new customers; (iii) the number of machines installed on available factory spaces; (iv) the estimates of output per machine per year and (v) the unit productivity and comparable processing charges.

(c) the Framework Materials Sourcing Agreement

Parties: The Group (as the supplier); and Masterknit (as the purchaser)

Principal terms: The Group has entered into a framework materials sourcing agreement with Masterknit, pursuant to which Masterknit will purchase various yarn related products. The term of the agreement is 1 October 2017 to 31 December 2019.

Reasons for the transaction: The Group has extensive experience and expertise in sourcing a broad range of materials. The materials sourcing service is primarily related to the sub-contracting services being provided to Masterknit. The Group is able to use its extensive sourcing network to reduce the cost of materials thus enhancing its cost competitiveness when subcontracting to Masterknit.

Pricing policy: The materials sourcing prices are determined with reference to market prices available from independent third parties and the estimated material costs of the different product mix to revenue percentages.

Annual Caps: The maximum aggregate annual sales amount to Masterknit for the respective periods below shall not exceed the caps set out below:

	Year ended 31 December	
	2018	2019
	US$'000	US$'000
Total materials sourcing amount	10,800	18,360

Basis of Caps: In determining the above annual caps, the directors have considered (i) the historical volume of orders placed by customers with Masterknit; (ii) the sales forecast from Masterknit's existing and new customers; (iii) the estimated material costs of different product mix to turnover percentage; and (iv) the estimated amount of materials to be purchased directly from suppliers by Masterknit.

Since Masterknit is connected persons and the transactions with Masterknit under the categories of (a)-(c) above are of a similar nature, the transactions will be aggregated and treated as if they were one transaction pursuant to Rules 14A.82(1) and 14A.83 of the Listing Rules. Accordingly, the annual caps in respect of the above categories of transactions with Masterknit are aggregated, and such aggregate amount is used when calculating the relevant percentage ratios under Chapter 14 of the Listing Rules. As the applicable "percentage ratios" (other than the profits ratio) for the transactions under the above categories are more than 0.1% but below 5%, the transactions contemplated are exempted from the circular (including independent financial advice) and independent shareholders' approval requirements, but subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

(d) the Equipment Leasing Agreement

The Group has entered into an equipment leasing agreement with Masterknit, under which Masterknit agreed to lease to the Group various production equipment. As the sub-contracting services mentioned in (b) above require different types of production equipment, it is considered commercially sensible for Masterknit to lease the required equipment to the Group due to the reasons that (i) it being more cost effective for the relevant equipment to be leased instead of purchased since the Group is only providing subcontracting services regarding knitted shoe uppers to Masterknit and (ii) Masterknit dealing directly with its customers regarding product development that enables Masterknit to determine the most suitable equipment to be used to achieve the desired product quality. The term of the agreement is 1 October 2017 to 31 December 2019. The fees for equipment leasing are determined with reference to the cost of such production equipment and an agreed internal rate of return.

The directors have estimated the maximum fee payable to Masterknit in relation to equipment leasing for each of the two years ending 31 December 2018 and 2019 will not exceed US$3,240,000 and US$6,412,000 respectively. In determining the annual cap listed in the table above, the directors have considered (i) the cost of leasing the relevant equipment; (ii) the customer demand forecast; and (iii) the estimated number of machines to be installed.

As the applicable "percentage ratios" (other than the profits ratio) for the transaction are more than 0.1% but below 5%, the transaction described above is exempted from the circular (including independent financial advice) and independent shareholders' approval requirements, but subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

Waivers from the Stock Exchange

The transactions described in the section "Non-exempt Continuing Connected Transactions" above constitute the Group's non-exempt continuing connected transactions and would normally require reporting and announcement but are exempt from the requirement of independent shareholders' approval under Chapter 14A of the Listing Rules. The Stock Exchange has granted the Company a waiver for the above non-exempt continuing connected transactions from strict compliance with the announcements under Rule 14A.105 of the Listing Rules, subject to the condition that the annual transaction value shall not exceed the estimated annual cap (as stated above). The Company will comply with the applicable requirements under the Listing Rules, and will immediately inform the Stock Exchange if there are any changes to the non-exempt continuing connected transactions.

Annual Review of the Continuing Connected Transactions

The independent non-executive directors have reviewed the above continuing connected transactions and confirm that the transactions have been entered into:

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

(b) on normal commercial terms or better; and

(c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole.

Pursuant to Rule 14A.56 of the Hong Kong Listing Rules, the Company's auditor was engaged to perform certain procedures in respect of the continuing connected transactions set out above in accordance with the Hong Kong Standard on Assurance Engagements 3000 "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 Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions.

Related Party Transactions

Details of the material related party transactions undertaken by the Group in its normal course of business are set out in note 37 to the consolidated financial statements. During the year ended 31 December 2017, certain related party transactions constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and in compliance with the disclosure requirements under Chapter 14A of the Listing Rules.

Directors' Interests in Competing Business

At 31 December 2017, none of the Directors is interested in any business, apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Rights to Acquire the Company's Securities and Equity-linked Agreements

Save as otherwise disclosed in this annual report, at no time during the year was the Company, or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the directors or chief executive officer of the Company or their respective associates (as defined under the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the Securities and Futures Ordinance ("**SFO**") or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, nor did the Company enter into any equity-linked agreement.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

At 31 December 2017, the interests or short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by directors of Listed Companies (the "**Model Code**"), to be notified to the Company and the Stock Exchange, were as follows:

(a) Interests in the Company

Name of Director	Nature of interest	Number of shares (1)	Approximate percentage of shareholding in the Company (%)
Mr. Lo (2)	Interest in controlled corporation	2,282,273,280	80.00%
	Interest of spouse	111,500	0.00%
Mrs. Lo (3)	Interest in controlled corporation	2,282,273,280	80.00%
	Founder of a discretionary trust who can influence the trustee	111,500	0.00%
Mr. Andrew Lo (4)	Beneficial owner	8,074,080	0.28%
Mr. Dennis Wong (4)	Beneficial owner	7,497,360	0.26%
Mr. Frankie Wong (4)	Beneficial owner	4,806,000	0.17%

Notes:

(1) All positions are long positions.

(2) Mr. Lo holds 50% of the shares of CGL, which in turn holds 2,282,273,280 shares of the Company. Accordingly, Mr. Lo is deemed to be interested in the 2,282,273,280 shares held by CGL. Under the SFO, Mr. Lo, as the spouse of Mrs. Lo, is deemed to be interested in the same number of shares in which Mrs. Lo is interested.

(3) Mrs. Lo holds 50% of the shares of CGL, which in turn holds 2,282,273,280 shares of the Company. Accordingly, Mrs. Lo is deemed to be interested in the 2,282,273,280 shares held by CGL. Under the SFO, Mrs. Lo, as the spouse of Mr. Lo, is deemed to be interested in the same number of shares in which Mr. Lo is interested. Mrs. Lo and her spouse Mr. Lo were interested in a total of 111,500 shares held by The Incorporated Trustees of Yuk Ching Charity Trust in which Mrs. Lo is a founder and chairman.

(4) These shares were acquired pursuant to Share Award Scheme A.

(b) Interests in Associated Corporations of the Company

Name of director	Name of associated corporation	Nature of interest	Number of shares held	Percentage of the issued share capital
Mr. Lo	Crystal Group Limited	Beneficial owner Interest of spouse	12,000	100%
Mrs. Lo	Crystal Group Limited	Beneficial owner Interest of spouse	12,000	100%
Mr. Lo	Crystal Group (Hong Kong) Limited	Interest in controlled corporation Interest of spouse	2	100%
Mrs. Lo	Crystal Group (Hong Kong) Limited	Interest in controlled corporation Interest of spouse	2	100%
Mr. Lo	Crystal Holdings Limited	Interest in controlled corporation Interest of spouse	2	100%
Mrs. Lo	Crystal Holdings Limited	Interest in controlled corporation Interest of spouse	2	100%
Mr. Lo	Sinotex (Mauritius) Limited	Interest in controlled corporation Interest of spouse	5,000,000	100%
Mrs. Lo	Sinotex (Mauritius) Limited	Interest in controlled corporation Interest of spouse	5,000,000	100%
Mr. Lo	Jumbo Win Investment Limited	Interest in controlled corporation Interest of spouse	1	100%
Mrs. Lo	Jumbo Win Investment Limited	Interest in controlled corporation Interest of spouse	1	100%
Mr. Lo	Billion Plus Enterprises Limited	Interest in controlled corporation Interest of spouse	1	100%
Mrs. Lo	Billion Plus Enterprises Limited	Interest in controlled corporation Interest of spouse	1	100%

Name of director	Name of associated corporation	Nature of interest	Number of shares held	Percentage of the issued share capital
Mr. Lo	Sinotex Corporation Limited	Interest in controlled corporation Interest of spouse	1	100%
Mrs. Lo	Sinotex Corporation Limited	Interest in controlled corporation Interest of spouse	1	100%
Mr. Lo	Sinotex Exports Limited	Interest in controlled corporation Interest of spouse	12,000	100%
Mrs. Lo	Sinotex Exports Limited	Interest in controlled corporation Interest of spouse	12,000	100%
Mr. Lo	Fashion Fit Limited	Interest in controlled corporation Interest of spouse	1	100%
Mrs. Lo	Fashion Fit Limited	Interest in controlled corporation Interest of spouse	1	100%
Mr. Lo	Crystal International Holdings Limited	Interest in controlled corporation Interest of spouse	1	100%
Mrs. Lo	Crystal International Holdings Limited	Interest in controlled corporation Interest of spouse	1	100%
Mr. Lo	Masterknit Limited	Interest in controlled corporation Interest of spouse	1,200,000	60%
Mrs. Lo	Masterknit Limited	Interest in controlled corporation Interest of spouse	1,200,000	60%

Save as disclosed above, at 31 December 2017, none of the directors or chief executive of the Company had any interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

At 31 December 2017, the following persons (other than the directors or chief executive of the Company), were directly or indirectly, interested in 5% or more of the shares or short positions in the shares and the underlying shares of the Company, which are required to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO, or which will be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

Name	Nature of interest	Number of shares [(1)]	Approximate percentage of shareholding in the Company (%)
Crystal Group Limited ("**CGL**")	Beneficial owner	2,282,273,280	80.00%

Notes:

(1) All positions are long positions.

(2) CGL is beneficially and wholly-owned by Mr. Lo and Mrs. Lo (each of them individually holding 50% of CGL's shares). By virtue of the SFO, Mr. Lo and Mrs. Lo are both deemed to be interested in the shares held by CGL.

Save as disclosed above, at 31 December 2017, the directors are not aware of any other corporation or individual (other than the Directors or chief executive of the Company) who had an interest or a short positions in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

Public Float

At the date of this annual report, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules and as agreed with the Stock Exchange since the Listing Date up to the date of this annual report.

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the "Corporate Governance Report" section on pages 47 to 56 of this annual report.

Audit Committee

The Audit Committee, together with the management of the Company and the external auditor of the Company, had conducted review on the accounting principles and policies adopted by the Group and the financial statments for the year ended 31 December 2017.

Auditor

The consolidated financial statements for the year ended 31 December 2017 have been audited by Deloitte Touche Tohmatsu, who will retire and, being eligible, offer themselves for the re-appointment at the forthcoming AGM of the Company. A resolution for re-appointment of Deloitte Touche Tohmatsu as the independent auditor of the Company will be proposed at the forthcoming AGM.

On Behalf of the Board
Lo Lok Fung Kenneth
15 March 2018

Corporate Governance Report

Corporate Governance Framework

The Group believes that good corporate governance can enhance its overall effectiveness, and thus create additional value for its shareholders. The Group is committed to maintaining high standards and has applied the principles of good corporate governance (the "**Principles**") that are set out in the Corporate Governance Code ("**CG Code**") as set out in Appendix 14 of the Listing Rules. The Group's corporate governance practices are based on these Principles. The Board believes that good corporate governance standards are essential in contributing to the provision of a framework for the Group to safeguard the interests of its shareholders, enhance corporate value, formulate its business strategies and policies, and enhance transparency and accountability.

For the financial year ended 31 December 2017, the Group has been in compliance with all the code provisions under the CG Code.

Model Code for Securities Transactions

The Group has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Upon specific enquiries being made of all directors, each of them has confirmed that they have complied with the required standards set out in the Model Code since the Listing Date and up to the date of this annual report.

The Group has established written guidelines for relevant employees with no less exacting terms than the Model Code in respect of securities transactions. No incident of non-compliance with the written guidelines was noted since the Listing Date and up to the date of this annual report.

Board of Directors

Roles and Responsibilities

The Group endeavours to enhance corporate efficiency and profitability through the Board. The directors recognize their collective and individual responsibility to the shareholders and perform their duties diligently to contribute to positive results for the Group and maximize returns for shareholders.

The functions and duties of the Board include convening general meetings, reviewing and monitoring the training and continuous professional development of the directors and senior management, reviewing the Group's compliance with the Code and disclosures in the Corporate Governance Report, implementing the resolutions passed at general meetings, determining strategies, business and investment plans, formulating the annual financial budget and reviewing as well as approving the financial accounts, and formulating proposals for profit distributions as well as exercising other powers, functions and duties conferred by the Articles of Association.

Board Composition

The Board continuously seeks to enhance its effectiveness and to maintain the highest standards of corporate governance. It recognizes diversity at Board level is an essential element in maintaining competitive advantage and sustainable development. The Board considers it vital to have the appropriate balance of skills, experience and diversity of perspectives that are needed to support the execution of its business strategies.

At 31 December 2017, the Board comprised five executive directors and four independent non-executive directors, whose biographical details and family relationships among certain directors are set out in the section headed "Directors and Senior Management" on pages 26 to 31 of this annual report. There are no other material financial, business or relevant relationships among the directors.

Executive Directors

Mr. LO Lok Fung Kenneth *(Chairman)*
Mrs. LO CHOY Yuk Ching Yvonne *(Vice Chairman)*
Mr. LO Ching Leung Andrew *(Chief Executive Officer)*
Mr. WONG Chi Fai
Mr. WONG Sing Wah

Independent Non-executive Directors

Mr. GRIFFITHS Anthony Nigel Clifton
Mr. TSE Man Bun Benny
Mr. CHANG George Ka Ki
Mr. MAK Wing Sum Alvin

The Company has received from all independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all independent non-executive directors to be independent.

Chairman and Chief Executive Officer ("CEO")

The chairman of the Board is Mr. Lo, and the CEO is Mr. Andrew Lo. The roles of chairman and CEO are performed by separate individuals, and there is clear division of responsibilities between the chairman and CEO to ensure a balance of power and authority.

Appointment and Re-election of Directors

There is a formal, considered and transparent procedure for the appointment of new directors and there is a plan in place for orderly succession for appointments. All directors are subject to retirement by rotation at least once every three years.

The independent non-executive directors have letters of appointment from the Company for a fixed term of one year commencing on 6 October 2017, which will be automatically renewed for another twelve months. They are subject to retirement by rotation and are eligible for re-election at the AGM.

Board Committees

To oversee particular aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has established four Committees: the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Development Committee. The Audit Committee only comprises independent non-executive directors as members in order to ensure independence, while the Remuneration Committee and Nomination Committee comprise a majority of independent non-executive directors so that effective independent judgement can be exercised.

Audit Committee

The Company has established an Audit Committee with written terms of reference in compliance with the Listing Rules and the CG Code. The Audit Committee consists of three members, namely Mr. Griffiths, Mr. Tse and Mr. Chang, all of whom are independent non-executive directors. Mr. Griffiths is the chairman of the Audit Committee and possesses the appropriate professional qualifications. The primary duties of the Audit Committee are to oversee the financial reporting system and internal control system of the Group, oversee the audit process, review and oversee the Group's management of existing and potential risks of the Group and perform other duties and responsibilities as assigned by the Board.

The Audit Committee oversees Internal Audit in the review of the Group's financial recording processes, its development and application of accounting procedures and its internal controls. There was no issue of any significance. It also reviewed the Group's management of risk, ensuring that the management process was working satisfactorily. The Audit Committee oversees the co-ordination between the internal and external auditors, and monitors the effectiveness of the internal audit function. The Audit Committee reviews on a continuous basis all complaints lodged under the whistleblowing policy and the action taken by management. It is satisfied that all complaints have been satisfactorily investigated.

The Audit Committee met once during the period from the Listing Date to 31 December 2017 to discuss and review matters relating to the Group's internal audit including the 2018 schedule of audits and to review with the auditors aspects of their audit in progress the Group's consolidated financial statements for the year ended 31 December 2017.

Remuneration Committee

The Company has established a Remuneration Committee with written terms of reference in compliance with the Listing Rules and the CG Code. The Remuneration Committee consists of three independent non-executive directors, being Mr. Mak, Mr. Tse and Mr. Chang and one executive director, Mr. Lo. Mr. Mak is the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are to establish and review the policy and structure of the remuneration for the directors and senior management and make recommendations to the board on the remuneration packages of individual directors and senior management.

The Remuneration Committee met once during the period from the Listing Date to 31 December 2017 to discuss and agree on (a) the matters and process of recommending to the Board for approval and (b) the current remuneration structure and the considerations in determining all elements of remuneration for the executive directors and senior management.

Nomination Committee

The Company has established a Nomination Committee with written terms of reference in compliance with the CG Code. The Nomination Committee consists of two independent non-executive directors, being Mr. Griffiths and Mr. Mak and one executive director, being Mr. Lo, who is its chairman. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment and removal of directors of the Company.

The Nomination Committee reviewed the composition of the Board, focusing on its suitability to contribute effectively to the realisation of the Group's strategic objectives and to achieve appropriate standards of corporate governance.

The Nomination Committee met once during the period from the Listing Date to 31 December 2017 to discuss and review its terms of reference and to consider the potential rotation of directors for re-election.

Corporate Development Committee

The Company has also established a Corporate Development Committee ("**CDC**") to review and advise the Board on future development opportunities for the Group. The committee is appointed by the Board to act as an advisory think tank and its members are Mr. Andrew Lo (chairman of CDC), Mr. Frankie Wong, Mr. Dennis Wong, Mr. Chang, Mr. Mak and Mr. Lee.

The CDC recommended acquisition opportunities for the Group's consideration, and reviewed strategies for business expansion, capital expenditure and asset restructuring during 2017.

The CDC met during the period from the Listing Date to 31 December 2017.

In order to comply with the Listing Rules and the CG Code, the terms of reference of each of the Audit Committee, Nomination Committee and Remuneration Committee of the Group and the list of directors and their roles and functions are regularly revised and updated, and are published on the websites of the Group and the Stock Exchange respectively.

Directors' and Senior Management's Remuneration

Emoluments paid or payable to the directors for the year ended 31 December 2017 are as follows:

	Fees US$'000	Salaries and allowances US$'000	Performance-based bonuses US$'000 (note iii)	Retirement benefit schemes contributions US$'000	Total US$'000
For the year ended 31 December 2017					
Executive directors (note i):					
Mr. Lo	–	919	–	–	919
Mrs. Lo	–	367	–	–	367
Mr. Andrew Lo (note iv)	–	962	1,106	23	2,091
Mr. Frankie Wong	–	598	737	33	1,368
Mr. Dennis Wong	–	744	965	40	1,749
Independent non-executive directors (note ii):					
Mr. Griffiths	58	–	–	–	58
Mr. Tse	33	–	–	–	33
Mr. Chang	33	–	–	–	33
Mr. Mak	34	–	–	–	34
	158	3,590	2,808	96	6,652

Notes:

(i) The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

(ii) The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

(iii) The amounts represent performance-based bonuses paid to the directors to reward their contribution to the Group, based on the performance of the Group.

(iv) Mr. Andrew Lo is also the chief executive officer of the Company during the year ended 31 December 2017.

There was no arrangement under which a director waived or agreed to waive any remuneration for the year ended 31 December 2017.

Five Highest Paid Individuals' Emoluments and Senior Management Remuneration

The five individuals with the highest emoluments in the Group include 4 directors of the Company. The emoluments of the five highest paid individuals are as follows:

	2017 US$'000
Salaries and allowances	3,589
Performance-based bonuses (note)	3,268
Retirement benefit schemes contributions	111
	6,968

Note: The amounts represent performance-based bonuses paid to the five highest paid individuals to reward their contribution to the Group.

Their emoluments were within the following bands (presented in Hong Kong dollars ("**HK$**")):

	Number of directors	Number of employees
HK$6,500,001 to HK$7,000,000	—	1
HK$7,000,001 to HK$7,500,000	1	—
HK$10,500,001 to HK$11,000,000	1	—
HK$13,500,001 to HK$14,000,000	1	—
HK$16,000,001 to HK$16,500,000	1	—
	4	1

During the year ended 31 December 2017, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the year ended 31 December 2017.

Senior Management Remuneration by Bands

The remuneration of the Company's senior management, whose profiles are set out on page 30 to 31 of this annual report, for the year ended 31 December 2017 were within the following bands (presented in HK$):

	Number of senior management
HK$4,000,001 to HK$4,500,000	2
HK$5,000,001 to HK$5,500,000	1
HK$6,500,001 to HK$7,000,000	1

Directors' Continuous Professional Development

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All directors are encouraged to participate in continuous professional trainings at the Company's expenses. All directors participated in appropriate continuous professional development activities during the year ended 31 December 2017, and relevant training records have been maintained by the Company for accurate and comprehensive record keeping.

Directors' Attendance

Details of director's attendance at the Board and board committee meetings held during the period from the Listing Date to 31 December 2017 are set out in the table below:

	Meetings Attended / Meetings Held			
	Board Meeting	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors				
Mr. Lo	1/1*	–	1/1	1/1*
Mrs. Lo	1/1	–	–	–
Mr. Andrew Lo	1/1	–	–	–
Mr. Frankie Wong	1/1	–	–	–
Mr. Dennis Wong	1/1	–	–	–
Independent Non-executive Directors				
Mr. Griffiths	1/1	1/1*	–	1/1
Mr. Tse	1/1	1/1	1/1	–
Mr. Chang	1/1	1/1	1/1	–
Mr. Mak	1/1	–	1/1*	1/1

*: *representing chairman of the Board or relevant committees.*

External Auditor

The Group's independent external auditor is Deloitte Touche Tohmatsu. The external auditor is responsible for auditing and forming an independent opinion on the Group's annual consolidated financial statements.

The Audit Committee reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process. It receives a report from the external auditor confirming its independence and objectivity and holds meetings with representatives of the external auditor to consider the scope of its fees, and the scope and appropriateness of non-audit services, if any, to be provided by it. The Audit Committee also makes recommendations to the Board on the appointment and retention of the external auditor.

The total remuneration paid to Deloitte Touche Tohmatsu as the external auditor of the Group in respect of the audit and non-audit services related to the IPO of the Group amounted to approximately US$1 million.

For the year ended 31 December 2017, the total fee paid/payable in respect of services provided by Deloitte Touche Tohmatsu were US$3 million, which includes fees for audit services US$1 million and for non-audit services (including tax filing and advice) US$2 million.

Accountability and Audit

The directors acknowledge their responsibility to present a balanced, clear and understandable assessment in the consolidation financial statements of the annual and interim reports, other price sensitive announcements and other financial disclosures required under the Listing Rules, and to report to the regulators as well as to disclose information required pursuant to statutory requirements. The statement of the external auditor about its reporting responsibilities on the financial statements is set out in the Independent Auditor's Report. The Group has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgements and estimates. When the directors become aware of material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern, such uncertainties would be set out and discussed in detail in this Corporate Governance Report.

The statement of the independent auditor of the Company about its reporting responsibilities and opinion on the consolidated financial statements of the Company for the year ended 31 December 2017 is set out in the Independent Auditor's Report on page 69 of this report.

Risk Management and Internal Control Systems

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring the Group establishes and maintains appropriate and effective risk management and internal control systems. The Board oversees management in the design, implementation and monitoring of the risk management and internal control systems, and management provides a confirmation to the Board on the effectiveness of these systems.

The Board oversight of the Company's risk management and internal control systems is ongoing, and the effectiveness of the Company's risk management and internal control systems is reviewed at least annually then reported to the shareholders in a timely manner.

During the year ended 31 December 2017, the Board has conducted a review of the effectiveness of the risk management and internal control systems of the Company and considered them effective and adequate.

The Group has a written risk assessment process to identify, evaluate and manage significant risks. The Group uses a risk ranking process which involving analysis of the likelihood of occurrence and impact of each identified risk to enable management to prioritize the identified risks and assign risk owners. Based on the risk ranking classification, management will analyze the measures that have been entered in the risk response table based on risk priorities. All high risk items are reduced or managed by mitigating actions while all medium risk items are considered for mitigation which is subject to a cost-and-benefit analysis. Risk strategies are then implemented by avoiding, transferring, mitigating or accepting the risk identified. The residual risk is evaluated and monitored. Key risks are reviewed by the executive committee on a semi-annual basis.

The Board has conducted its annual review of the effectiveness of the system of internal control (including financial, operational and compliance control) and risk management at 31 December 2017, has discovered no material defect in internal control, and considered the existing system to be effective and adequate. The Company also had adequate resources, staff qualifications, training courses and budgets in its accounting, internal audit and financial reporting functions.

The Board acknowledges that it is responsible for the risk management and internal control systems and for reviewing their effectiveness and such systems have been designed 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.

Internal Audit

Reporting to the Audit Committee, the Internal Audit department provides necessary information to assist management and the Audit Committee to assess the effectiveness of the risk management and internal control systems in order to achieve the business objectives and corporate governance requirements of the Group. Internal auditors conduct or support investigations, as required or directed from time to time by the Board or the Audit Committee.

Inside Information

The Group has adopted a policy and procedures for the handling and dissemination of inside information. The policy provides a general guide to directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and replying to enquiries. Control procedures are implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

Company Secretary

Mr. Lee King Fai, who is the company secretary of the Group, reports directly to the Board and is responsible for providing updated and timely information to all directors.

For the year ended 31 December 2017, Mr. Lee has confirmed that he has complied with the training requirements under Rule 3.29 of the Listing Rules.

Shareholders' Rights

The Group aims to establish fair and transparent procedures to enable all shareholders an equal opportunity to exercise their rights in an informed manner and communicate efficiently with the Group. Under the Articles of Association and the relevant policies and procedures of the Group, the shareholders have, among others, the following rights:

Convene an Extraordinary General Meeting

General meetings shall be convened on the written requisition of any two or more members deposited at the principal office of the Company in Hong Kong (3/F, Crystal Industrial Building, 71 How Ming Street, Kwun Tong, Kowloon, Hong Kong) or, in the event the Company ceases to have a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right to vote at general meetings of the Company. General meetings may also be convened on the written requisition of any one member which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong (3/F, Crystal Industrial Building, 71 How Ming Street, Kwun Tong, Kowloon, Hong Kong) or, in the event the Company ceases to have a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right to vote at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company. The Company will take appropriate action and make all necessary arrangements in accordance with the requirements of Article 12.3 of the Company's Articles of Association once a valid requisition is received.

Propose a Person for Election as a Director

The Company has adopted the procedures for shareholders to propose a person for election as a director with effect from the Listing Date. The procedures are available on the Group's website.

Communication with Shareholders and Investor Relations

Pursuant to the code provision E.1.2 as set out in the CG Code, the Group has invited representatives of the external auditor of the Group to attend the AGM of the Group to be convened on 15 June 2018 to answer shareholders' questions relating to the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

The Board recognizes the importance of communication with its shareholders and investors. The Group has established an Investor Relations Department to communicate with research analysts, institutional investors and shareholders in an on-going and timely manner, providing them necessary information, data and services to understand the Group's operations, strategies and development. The Group also issues press releases from time to time and responds to requests for information and queries from the investment community. Current information about the Group including the annual report, announcements, circulars and press releases can be downloaded from the Group's website (www.crystalgroup.com). Enquiries may be put to the Board by either contacting the Investor Relations Department through email at ir@crystalgroup.com or raising questions at a general meeting.

Constitutional Document

The Company's Memorandum and Articles of Association were amended and restated at 6 October 2017 with effect from the Listing Date. A copy of the Company's Memorandum and Articles of Association is available on the websites of the Group and the Stock Exchange.

Environmental, Social and Governance Report

The Board recognises the importance of strong Environmental, Social and Governance (the "**ESG**") performance in meeting the changing expectations of stakeholders and enhancing the performance of the Group. The Board has taken overall responsibility for the Company's ESG strategy and reporting, and has made a far-reaching commitment to environmental protection with its mission being to promote an active environmental culture among all employees that will contribute significantly to maintaining the sustainability of the Company.

With the aim of strengthening its ESG disclosure requirements, the Company has taken the initiative to:

- formulate policies,
- measure relevant data,
- monitor the progress of policy implementation and
- report to investors and other stakeholders on the achievements

in accordance with the ESG Guide (Appendix 27 of the Listing Rules) of the Stock Exchange and other related rules.

This ESG Report describes the progress made by the Company on its sustainability journey in 2017. The reporting scope covers the five major subsidiaries (factories) located in Guangdong, China:

- Dongguan Crystal Knitting & Garment Co., Ltd. ("**China DCKG**");
- Dongguan Yeji Industrial Co., Ltd. ("**China Yeji**");
- Martin Emprex Textiles (Zhongshan China) Ltd. ("**China CMZS**"); and
- Zhongshan Yida Apparel Limited ("**China Yida**");

and Hai Duong, Vietnam:

- Regent Garment Factory Limited ("**Vietnam Regent**")

Highlights in the Environmental Area

The Group has complied with relevant environmental policies, laws and regulations and the requirements set out by the Stock Exchange. The Company has established a series of policies and practices for environmental protection, including but not limited to the following:

- Corporate Environmental Policy
- Environmental Management System (EMS) Guidelines
- Waste Management Guidelines
- Chemical Management Guidelines
- Restricted Substances List ("**RSL**")

The Group started to set five-year global environmental targets in 2007. After completing the first group of targets, Crystal International has successfully achieved the second set of five-year (2013-2017) targets, with 2012 as the base year. These targets were established as eight Specific, Measurable, Assignable, Relevant and Time-bound (SMART) goals tabulated below:

2nd Global 5-year Environmental Targets (2013-17)

1. Reduce fresh water consumption per garment by 10%[1]
2. Send no operational waste to landfill
3. Reduce carbon footprint per garment by 6%
4. Make use of recycled water to 50%
5. Reduce energy consumption per garment by 5%
6. Reduce paper consumption by 10%
7. Make use of renewable energy by 5-10%
8. Plant 1 million trees

In addition, the Company's Washing Development team has developed a unique washing process, which was first applied to China Yida. The advanced washing process replaces the conventional bleaching and dry-processing methods with the use of laser technology. Such method is highly effective in reducing water consumption because no water is used in this process. Nor does the advanced process require the use of chemicals. Consequently, the environmental impact resulting from the Company's operations has been significantly reduced.

The Company implemented new eco-friendly washing machines at China DCKG in 2014. The new layout and enhanced processes of the new technology have allowed the Company to reduce water usage by 91,100 cubic metres annually. Records show that water consumption during the year has reduced markedly, compared to using conventional washing machines, by an impressive 95%, while steam consumption has also reduced by 43.4%. As a result, the Company introduced the new washing machines to China Yeji and Vietnam Regent in 2015 and 2016 respectively, further minimising its water consumption in its operations.

Note 1:For production purpose in factories with washing activities

Highlights of the Social Area

Crystal International has complied with relevant social policies, laws and regulations and the requirements set out by the Stock Exchange. The Company has developed specific policies and guidelines for use in aligning its organisational practices with established standards.

Important policies and standard procedures include but are not limited to the following:

- Code of Conduct
- Social Compliance and Safety
- Human Resource Policies including:
    - Recruitment
    - Promotion and Transfer
    - Separation (ensuring full compliance with the country's labour legislation, and that all separations are administered as equitably, humanely and consistently as possible)
    - Compensation
    - Benefits, Leave and Retirement
    - Social compliance (defining the Group's philosophy in relation to the fair, equable, ethical and non-discriminatory treatment of all our employees)
    - Human Resource Development
- Child Labour Prevention and Control
- No Forced Labour
- Environmental Compliance
- Quality Management
- Business Conduct (Integrity and Ethics) including:
    - Conflict of Interest
    - Anti-Bribery
    - Anti-money Laundering
    - Confidentiality
    - Anti-Fraud
    - Anti-Corruption
    - Whistle-blowing
- Corporate Governance and Others

The Company, in focusing on its business operations, also considers carefully at the same time its impact on the community. Community engagement continues to be one of the Company's principal objectives and is included in its sustainability framework. The Company aims to bring lasting benefits to the community through its involvement in volunteer work and charitable activity.

The Group prizes and willingly invests in its global employees from different areas to help create values for them, their families, and their community. This investment includes satisfying the basic physiological and occupational safety needs of the employees and helping them to achieve success while encouraging them to realise their full potential.

A particular area of focus also is the organisation and delivery of female empowerment programmes designed to educate the Company's female workers in important life skills. A key Company aim is to advance the lives of up to 40,000 of its female workers by 2020.

Detailed Commentary

A. The Environmental Area

Aspect A1: Emissions

Crystal International persistently conducts its business in an environmentally responsible manner. Measures have been applied regarding the Company's use of resources, including energy, water and paper consumption and emissions released from operations, such as air pollutants, to monitor and wherever possible reduce the impact they may have on the environment.

The Company strives to improve its performance in carbon footprint and energy saving through environmental engineering projects, such as energy-efficient machine replacements and the use of renewable energies. Several actions have been taken to improve the performance in the reduction of carbon footprint and energy conservation, including the increased use of renewable energies in production, upgrading equipment at factories and the installation of energy-efficient machines. All the factories in-scope have been certified with international environmental standards, such as the ISO14001 Environmental Management Systems, the ISO 50001 Energy Management Systems and the WWF Low Carbon Manufacturing Programme ("**LCMP**"). Both technical and management measures have been applied to significantly reduce energy use and emissions of greenhouse gases.

Since the Company operates in the apparel manufacturing field, its emissions, such as air pollution arising from fuel used by equipment in its factories, could be potentially very significant yet this situation has been avoided through the implementation of practices to control and reduce operational emissions to a minimal level. Throughout 2017, air pollutant emissions were mainly generated by the fuel combustion of boilers.

Emissions of air pollutants

Types of air emissions	Major air emission sources	Total volume emitted (tonnes)
Nitrogen Oxides (NOx)	Generators, motor vehicles, boilers and other machinery	79.2
Sulphur Dioxide (SO_2)		6.8
Particulate Matter (PM)		17.0

Note: The amounts of air pollutants are estimated by fuel consumption and equipment condition with reference to the methodology of USEPA.

Greenhouse Gases (GHG)

The Group commits to reduce greenhouse gases ("**GHG**") emissions. The types of GHG considered in this report generally include carbon dioxide, methane and nitrous oxide. The GHG emissions from the factories of Crystal International fall within mainly two scopes as defined in the following paragraphs, with the emission amount presented in the unit of carbon dioxide equivalent ("**CO_2e**").

Scope 1 – Direct emissions from operations that are owned or controlled by the Company (e.g. use of boilers, generators);

From January to December 2017, 17.2 million kg CO_2e GHG were emitted by the five factories in scope, mainly from boilers, generators, vehicles, cooking activities, printing activities, wastewater treatment plants and septic tanks.

Scope 2 – Energy indirect emissions resulting from the Company's purchased electricity from power companies;

From January to December 2017, 62.1 million kg CO_2e GHG emissions were generated by the Company.

From January to December 2017, a total of 79.3 million kg CO_2e were emitted by purchased electricity, combustion of fuels and onsite sewage treatment, summing up all the operations of factories in Guangdong, China and Hai Duong, Vietnam. Most of the GHG emissions were induced by purchased electricity.

GHG emissions	Major source(s)	Total GHG emissions (million kg CO_2e)	Total GHG emissions (%)
Scope 1 Direct emissions or removals from sources	Use of boilers, generators, kitchens Combustion of fuels in mobile sources (e.g. motor vehicles) Wastewater treatment plants and septic tanks	17.2	22%
Scope 2 Energy indirect emissions	Purchased electricity	62.1	78%
Total GHG emissions		79.3	100%

Note: 1 million kg = 1,000 tonnes

Aspect A2: Use of Resources

Crystal International has always put great emphasis on resource conservation. A 5-year environmental target plan has been set regarding the reduction of the use of resources (e.g. water and energy) and to increase the usage of recycled and eco-friendly resources (e.g. recycled water and renewable energy).

The Company has achieved the objectives by implementing saving measures. For example, the Company established a unique washing process to reduce its water consumption. By implementing laser technology as a replacement for conventional bleaching and dry-processing methods, no water is required in this process.

To minimise water consumption and water pollution, prudent water stewardship has been effected with the aim of reducing water consumption and maximising the use of recycled water. These aims are achieved through the consistent upgrading of water-processing equipment and the enhancement of wastewater treatment, as well as the application of regular preventive measures.

Electricity consumption is reduced by utilising innovative substitutes that are more environmentally friendly, including T5 light tubes, induction lights and LED lights. Through the application of these technologies, a reduction of 57.7 thousand kWh of electricity each year has been reached in China Yeji. Renewable energy applications, such as the installation of solar water heating systems and the use of biomass fuel in boiler, are adopted as far as practicable.

Regarding the use of paper, the Company has adopted an Enterprise Resources Planning (ERP) system, which helps to reduce paper usage tremendously by digitising and centralising the procurement process. A R&D team has been established in each product division to design, customise and integrate automation technologies into the manufacturing process while the Company continuously develops in-house machinery and equipment for its factories. Additionally, the R&D teams collaborate with several experts to conduct research into the specific needs of their global customers. The Company relies on professional advice from external experts in areas of fabric, apparel construction and patterns. Thus, the combination of the R&D teams and experts contribute to innovation in production processes and products, while reducing resource consumption through efficiency enhancements.

Since 2007, the Company has been actively participating in tree planting activities in countries where it operates. Up to 2017, around 2.2 million trees have been planted.

Energy consumption and water consumption

Consumption type	Amount
Electricity (MWh)	97,363
Boiler (MWh)	153,376
Water (m^3)	4,570,621

Hazardous waste and non-hazardous waste generation

Hazardous waste	Generated amount (kilotonnes)
Mainly chemical waste from production processes and sludge from wastewater treatment	0.5

Note: All hazardous waste was collected by licensed contractors for proper waste treatment to avoid unacceptable environmental impact.

Non-hazardous waste	Generated amount (kilotonnes)
Mainly fabric waste and domestic waste	40.1

Note: The amount of waste generation is based on available true records and partial estimations. All non-hazardous waste was collected and handled by waste contractors, whilst the recyclable materials were sorted out to avoid disposal.

Packaging material

Packaging material type	Amount (kilotonnes)
Paper	7.2
Plastic	2.4
Total	9.6

Energy Consumption

In 2017, the major sources of energy consumption in the five factories in-scope were boilers and electricity.

From January to December 2017, 153,376 MWh and 97,363 MWh of boiler fuels and electricity were consumed, respectively, by the five in-scope factories located in Guangdong, China and Hai Duong, Vietnam.

Water Consumption

From January to December 2017, around 4.5 million cubic metres of water were consumed by the five in-scope factories. Around 3.0 million cubic metres of water was used for production purposes, whilst freshwater and recycled water were both 50%. This amount of water consumption was mainly used for washing.

Aspect A3: The Environment and Natural Resources

The Company acknowledges the importance of conserving the environment and natural resources and has established a series of policies which aims to promote environmental protection and more importantly, the reduction of wastage.

Environmental risks have been actively assessed and monitored with preventive measures being adopted to ensure compliance with relevant laws and regulations. In order to properly control waste handling and enhance material efficiency, a set of waste management guidelines has been established. These waste management guidelines facilitate the production processes in accordance with the waste management hierarchy, assist frontline management with appropriate resource selection and use, proper waste collection and disposal.

The effectiveness of the Company in resource conservation and usage reduction can be shown by its achievements and by the awards attained. In 2017, the Company and its factories, located in Guangdong, for example, have been given various awards and certificates recognising the Company's status at the higher levels of environmental awareness and for its energy-saving initiatives. These include the Platinum Label of the LCMP Label Award and the "EcoChallenger" under the Corporate Environmental Leadership Awards organised by Bank of China (Hong Kong).

B. The Social Subject Area

Aspect B1: Employment

Crystal International complies with the relevant employment laws and regulations to ensure its employees receive reasonable and fair treatment. The Company has also established policies, including the Social Compliance Policy, Code of Conduct and a set of corporate values, which outline the standards of behaviour that are expected from all its employees at all times. For example, fair competition should be engaged within the workforce. Employees have the right to form and join trade unions in order to protect their interests.

The Company has a Corporate Human Resources Department that develops and executes the Group Human Resources Policy at the group and division levels, providing professional advice to top management, senior management and division heads on staffing and people issues, such as job descriptions and position classifications, recruitment, promotions and transfers, and so on.

The Local Human Resources Department ("**LHRD**") of the Company provides relevant education and training opportunities to department managers and operational employees, ensuring employees receive fair and equal treatment. The LHRDs also review and give recommendations on the improvement of Group Human Resources Policies.

Both non-discrimination and non-harassment are the subjects of policies included in the Group Human Resources Policies to ensure employees are fairly treated and the workplace is free from harassment of any kind.

To enhance the loyalty and commitment of employees, the Company follows Maslow's hierarchy of needs, which encompasses components of these needs:

- physiological;
- safety;
- social;
- esteem; and
- self-actualisation

in determining its policies.

Involvement of employees is encouraged through the organisation of regular and informal gatherings at which open communication is the norm. Online social networking platforms are developed to maintain close relationships within the workforce.

Because fairness and equity in the workplace are emphasised, a grievance mechanism has been put in place, which allows employees to voice complaints to management.

Diversity in the workplace is welcomed and appropriate candidates from different cultural backgrounds, with a broad range of beliefs and values, can be hired. This practice enables employees of all levels to broaden their horizons while encouraging a variety of perspectives as regards the executive management and the decision making of the Company.

The Company has employed people with disabilities to perform duties which effectively utilise their areas of expertise, an example being, a mending worker who is physically disabled hired to work at the Vietnam sweater factory.

Crystal International also provides work opportunities and training to female employees. Females constitute the higher proportion of the Company's workforce in 2017, at 65%. Women are encouraged to enhance both their managerial and life skills, thus assisting them to move towards leadership roles in the Company. Based on the development flow generated in past years, the Company believes that up to 40,000 female employees will have benefitted from its assistance by the year of 2020.

Aspect B2: Health and Safety

Crystal International conducts its operations in accordance with the industry standards and legal requirements of the countries in which it operates in order to provide a legitimate, safe and dignified working environment for its employees. The Social Compliance Policy and the Social Compliance Manual are in place to give guidance to employees on matters of work health and safety, including many aspects, such as human rights and working hours. A "Facilities Planning and Management Framework" exists to provide standardised governance control procedures applicable to all stages of a project development cycle. Annually, a Corporate Risk Assessment is conducted on a transparent basis to assess, monitor and maintain healthy and safe in the Group's workplaces.

Because the Group values the health and work-life balance of its employees, fitness and recreational centres have been set up on factory premises, providing sports and wellness programmes to help employees adopt a healthy lifestyle. For example, workers in Vietnam are encouraged to participate in sports, races and athletic events.

In addition to exercise, the diet of employees is considered of key importance. The Company is supplying tasty, nutritious dishes at its canteens to ensure employees have a nutritionally balanced meal.

With the high percentage of female workers, care and attention is given to pregnancy, through the establishment of dedicated facilities in the workplace, that provide maternity training, regular health checks, consultation services and, when needed, arranges transport for its pregnant female employees. For instance, pregnant workers at the factory in Vietnam are provided with pre- and post-natal care.

Aspect B3: Development and Training

The Group gives close attention to the development of its employees, enabling them to acquire knowledge, professional skills, personal growth and job satisfaction. In this way, continuous development is provided to all employees. Equal consideration is given to all applicants regardless of age, gender, nationality, religion, sexual orientation or physical abilities.

The Personal Advancement and Career Enhancement (P.A.C.E.) programme is implemented by the Group to empower female workers in most factories via life skills education, including:

- Water and hygiene;
- Health;
- Financial literacy;
- Communication;
- Problem solving and decision making;
- Time and stress management; and
- Execution excellence.

In terms of career development, the Company provides development opportunities to every employee at every level to encourage personal advancement and continuing education. Examples of training include the Next Generation Leaders (NGL) programme and the effective supervision and engineering certification programmes.

Aspect B4: Labour Standards

Full compliance with the labour standards established by the countries in which the Company operates, is stressed and carefully monitored. As regards illegal practices, the Company does not accept and prohibits the employment of either children or forced labour.

To ensure its staff is legally employed, the Company has established the Code of Conduct and Social Compliance Policy, and examines the enforcement in accordance to the policies.

The Company is committed to the protection of the rights of children and guides its employees to prevent and avoid the use of child labour by implementing effective measure within its management systems.

The recruitment procedures and mechanisms verify the ages of job applicants to ensure those employed are at least of the legal minimum working age.

Aspect B5: Supply Chain Management

Part of the Social Compliance Policy requires suppliers to apply minimum standards of health and safety, fire and building safety, and to prohibit the employment of children and forced labour while assuring the same freedom of association the Group offers to its workers. Such factors are influential in decisions to do business with potential suppliers.

The Company requires conformity with its RSL which clearly articulates its expectations of suppliers in several aspects, such as setting detected limits of hazardous chemical in materials and goods supplied by suppliers. This RSL acts as a part of the compliance requirements mandated by the Company for their suppliers.

The Company aims to help its upstream suppliers to avoid the use of potentially hazardous substances in accordance with the Manufacturing Restricted Substance List (MRSL), part of the Zero Discharge of Hazardous Chemicals (ZDHC) Programme.

Aspect B6: Product Responsibility

The Corporate Quality Management Policy provides the framework for its manufacturing activities to ensure quality products and service are delivered to its customers. The Policy requires a quality management system to be adopted by all factory management to ensure the delivery of high quality, safe products, as well as to protect customer information.

The Corporate Quality Assurance team ensures the quality of the Company's products and compliance with the relevant policies and objectives. The team conducts regular system audits, quality performance reviews and statistical analysis.

The Group operates certified in-house laboratories in different countries, which conduct quality performance tests on raw materials, semi-finished products and final products to ensure product quality, and labelling requirements are met. These laboratories are accredited by some of our key customers, granting the laboratory the privilege to issue its own self-inspection certificates.

Should product return claims arise from customers, the Group may negotiate with the customers to resolve product issues on an individual case basis and work out a solution that is equable and fair to both parties.

Aspect B7: Anti-corruption

Crystal International has established a Whistle-blowing Policy regarding anti-corruption, anti-fraud and anti-money laundering. It also includes terms of anti-corruption in the Company's policy and the disclosure of the Company's confidential data. The policy allows employees to discreetly report any misconduct or dishonest activities if identified, which includes suspected corruption, fraud and other types of crime. As a result of close monitoring, there was no legal corruption case being reported against the Company during 2017.

A Conflict of Interest Policy has been established, which sets a standard of business ethics expected by the Company of all employees and suppliers. The Policy states that employees have the duty to disclose any financial interest directly or indirectly related to the Company and declare any family members working for the Company or one of its suppliers. Employees and suppliers are required to complete a Conflict of Interest Statement to clarify if there is any outside financial interest or personal family relationship in order to prevent any potential misconduct. The Executive Director or respective Line President determines to what extent a conflict of interest exists and the action to be taken.

In addition, the Anti-corruption Policy summarises ways that vendors are to behave according to the expectations and requirements of the Company. For example, employees are only allowed to receive HK$100 red packets and gifts with a maximum value of HK$1,000. Further, the Policy includes an Exempted Vendors Registration list for employees to complete if necessary, which specifies the name of vendors, products/services offered and reasons for exemption.

Aspect B8: Community Investment

Crystal International has made an outstanding contribution to the community. For instance, the Company has been a double diamond member of WWF Hong Kong since 2010 and is engaged in several activities operated by that organisation, which includes being a signatory to the No Shark Fin Pledge, sponsorship of the Earth Hour event and participation in the LCMP. Vietnam Regent has donated unwanted computers to a neighbouring secondary school.

Employees are also encouraged to be involved through volunteering. During 2017, employees volunteered to participate in tree planting programmes, which raised their awareness of issues relating to climate change, environmental damage and deforestation. Employees joined community visits, held singing performances and organised games for the elderly while also raising funds for victims of natural disasters.

The Company is closely engaged with industrial associations, non-governmental bodies, environmental and academic organisations that align with its vision of sustainability. These relationships generate social and environmental benefits.

The extensive involvement in community services and activities has brought the Company a number of awards and certificates of recognition and appreciation. For example, the Company has won the Touching CSR Award. The Company is listed as a “Caring Company”, nominated by the Agency for Volunteer Service in Hong Kong.

The management of the Group focuses on both business operations and, equally, business ethics as related to corporate social responsibility. It aims to conduct manufacturing operations in an increasingly sustainable way. The Group takes seriously its responsibility to be legally compliant in regard to environmental protection and social responsibility. The formulation of relevant policies and guidelines provides effective measurements, that allow the progress of the Group to be monitored. Crystal International is proud of what it has achieved in 2017 in several areas, exemplified by minimising the emissions released from its operations and maxmising its contribution to the community.

Deloitte. 德勤

TO THE SHAREHOLDERS OF CRYSTAL INTERNATIONAL GROUP LIMITED
(FORMERLY KNOWN AS CRYSTAL INTERNATIONAL LIMITED)
(incorporated in Bermuda with limited liability and registered by way of continuation in the Cayman Islands)

Opinion

We have audited the consolidated financial statements of Crystal International Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 75 to 153, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") 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 International Standards on Auditing ("**ISAs**"). 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill and an intangible asset with indefinite useful life	
We identified the impairment assessment of goodwill and an intangible asset with indefinite useful life, namely brand names which is allocated to the cash-generating unit ("**CGU**") of Vista Corp Holdings Limited ("**Vista**") as a key audit matter because of the significance of the balances to the consolidated statement of financial position as a whole and the significant degree of judgement made by management in the assessment process. Determining whether goodwill and the intangible asset with indefinite useful life are impaired requires management's estimation of the value in use of the CGU business to which the goodwill and the intangible asset with indefinite useful life have been allocated. The value in use calculation requires the management of the Group to estimate the future cash flows expected to arise from the CGU which includes key assumptions for cash flow projections, including yearly growth rates of revenue, gross margin, discount rate and management's expectation of market conditions. Where the actual future cash flows are less than expected, a material impairment loss may arise. As set out in notes 14 and 15 to the consolidated financial statements, the carrying amounts of goodwill and the intangible asset with indefinite useful life are US$74,941,000 and US$31,777,000 respectively at 31 December 2017. The management of the Group determined that there was no impairment in the CGU containing goodwill and the intangible asset with indefinite useful life during the year ended 31 December 2017.	Our procedures in relation to the impairment assessment of goodwill and the intangible asset with indefinite useful life included: • Understanding the entity's key control in relation to the impairment assessment of goodwill and the intangible asset with indefinite useful life, including the process of preparation of the future cash flows projections and key assumptions adopted by management in the cash flow projections; • Evaluating the appropriateness of the key assumptions in the cash flow projections, including yearly growth rates of revenue, gross margin and management's expectation of market conditions by reference to the historical performance, future business plan of the Group as well as industrial trend; • Involving our internal valuation expert to evaluate the appropriateness of the valuation methodology and the reasonableness of discount rate used by management by performing re-calculations based on market data and certain company specific parameters; • Obtain the sensitivity analysis performed by management and assessing the extent of impact on the value in use; and • Evaluating the historical accuracy of the forecasted cash flows by comparing them to actual results in the current year.

Key audit matter	How our audit addressed the key audit matter
Assessment of the net realisable value of inventories	
We identified the assessment of the net realisable value of inventories as a key audit matter due to the significance of the balance to the consolidated statement of financial position as a whole and the management judgement involved in the determination of the net realisable value. As disclosed in notes 4 and 18 to the consolidated financial statements, inventories are carried at US$249,372,000, which represent approximately 25% and 14% of the Group's current assets and total assets at 31 December 2017, respectively. An expense of US$9,340,000 was recognised in profit or loss to write down the cost of inventories to their net realisable values during the year ended 31 December 2017. As disclosed in note 4 to the consolidated financial statements, the management identified slow-moving and obsolete inventories based on the aged analysis of inventory and recent or subsequent usages/sales and determined the write-down of inventories base on latest selling price and market conditions.	Our procedures in relation to the assessment of the net realisable value of inventories included: • Obtaining an understanding on the management's process in identifying slow-moving and obsolete inventories and determining the net realisable value of inventories; • Engaging our internal IT specialists to test the accuracy of the inventories aging list in the system generated report and assessing whether slow-moving and obsolete inventories were properly identified after taking into account of subsequent sales of finished goods and subsequent usage and consumption of raw materials and work in progress; • Comparing the actual selling prices of finished goods subsequent to year end, on a sample basis, to their carrying amounts to check whether the finished goods are stated at the lower of cost and net realisable value; and • Assessing the historical accuracy of the write-down of inventories to evaluate the appropriateness of the basis used by management in the current year.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

Those charged with governance are responsible 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 solely to you, as a body, in accordance with our agreed terms of engagement 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 ISAs 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 ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, 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 the independent auditor's report is Chiu Mei Hing.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
15 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 US$'000	2016 US$'000
Revenue	5	**2,177,994**	1,763,392
Cost of sales		**(1,735,583)**	(1,407,730)
Gross profit		**442,411**	355,662
Other income		**9,297**	20,844
Selling and distribution expenses		**(39,710)**	(32,076)
Administrative and other expenses		**(218,393)**	(196,101)
Finance costs		**(16,565)**	(4,853)
Share of results of an associate		**(2,669)**	1,304
Profit before tax	6	**174,371**	144,780
Income tax expense	8	**(25,854)**	(21,128)
Profit for the year		**148,517**	123,652

	Note	2017 US$'000	2016 US$'000
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**14,070**	(29,647)
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit liabilities		**5,265**	(1,757)
Deferred tax (expense) credit arising on defined benefit liabilities		**(1,027)**	106
Surplus on revaluation of properties		**8,636**	16,924
Deferred tax expense arising on revaluation of properties		**(1,670)**	(3,759)
Deferred tax credit arising on disposal of a revalued property		**–**	7,340
		11,204	18,854
Other comprehensive income (expense) for the year		**25,274**	(10,793)
Total comprehensive income for the year		**173,791**	112,859
Profit for the year attributable to:			
Owners of the Company		**148,429**	123,652
Non-controlling interests		**88**	–
		148,517	123,652
Total comprehensive income attributable to:			
Owners of the Company		**173,703**	112,859
Non-controlling interests		**88**	–
		173,791	112,859
Earnings per share for profit attributable to the owners of the Company (US cents)	9		
– basic		**6.20**	5.36
– diluted		**6.20**	N/A

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	2017 US$'000	2016 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**574,438**	462,807
Deposits paid for acquisition of property, plant and equipment	12	**12,145**	4,573
Prepaid lease payments	13	**34,752**	33,324
Goodwill	14	**74,941**	74,941
Intangible assets	15	**100,610**	105,527
Interest in an associate	16	**15,196**	17,801
Loan receivables	17	**2,625**	3,173
		814,707	702,146
Current assets			
Inventories	18	**249,372**	217,114
Prepaid lease payments	13	**879**	843
Trade, bills and other receivables	19	**337,597**	287,540
Amount due from an associate	27	**525**	–
Amounts due from related companies	28	**1,228**	–
Loan receivables	17	**696**	627
Derivative financial assets	20	**–**	1,648
Tax recoverable		**–**	1,382
Bank balances and cash	21	**416,721**	149,523
		1,007,018	658,677
Total assets		**1,821,725**	1,360,823

At 31 December 2017

	Notes	2017 US$'000	2016 US$'000
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	22	**3,654**	12
Reserves		**907,114**	305,546
Equity attributable to owners of the Company		**910,768**	305,558
Non-controlling interests		**–**	2,671
Total equity		**910,768**	308,229
Non-current liabilities			
Other payables	23	**8,933**	10,980
Deferred taxation	24	**31,254**	28,998
Defined benefit liabilities	25	**265**	5,859
Bank borrowings	26	**23,000**	32,000
		63,452	77,837
Current liabilities			
Trade, bills and other payables	23	**321,004**	393,773
Amount due to ultimate holding company	27	**–**	118,632
Amount due to an associate	27	**–**	2,235
Amounts due to related companies	28	**–**	152
Tax liabilities		**19,177**	14,407
Bank borrowings	26	**507,324**	445,558
		847,505	974,757
Total equity and liabilities		**1,821,725**	1,360,823

The consolidated financial statements on pages 75 to 153 were approved and authorised for issue by the Board of Directors on 15 March 2018 and are signed on its behalf by:

LO Lok Fung Kenneth
DIRECTOR

LO CHOY Yuk Ching Yvonne
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company										
	Share capital US$'000	Share premium US$'000	Property revaluation reserve US$'000	Exchange reserve US$'000	Capital reserve US$'000	Share award reserve US$'000	Other reserve US$'000	Retained profits US$'000	Sub-total US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2017	12	–	56,130	(64,340)	9,903	–	–	303,853	305,558	2,671	308,229
Profit for the year	–	–	–	–	–	–	–	148,429	148,429	88	148,517
Exchange difference arising on translation of foreign operations	–	–	–	14,070	–	–	–	–	14,070	–	14,070
Remeasurement of defined benefit liabilities	–	–	–	–	–	–	–	5,265	5,265	–	5,265
Deferred tax expense arising on defined benefit liabilities	–	–	–	–	–	–	–	(1,027)	(1,027)	–	(1,027)
Surplus on revaluation of properties	–	–	8,636	–	–	–	–	–	8,636	–	8,636
Deferred tax expense arising on revaluation of properties	–	–	(1,670)	–	–	–	–	–	(1,670)	–	(1,670)
Total comprehensive income for the year	–	–	6,966	14,070	–	–	–	152,667	173,703	88	173,791
Shares repurchased and cancelled	(12)	–	–	–	–	–	–	12	–	–	–
Issue of shares pursuant to re-denomination (note 22 (i))	2,954	–	–	–	–	–	–	(2,954)	–	–	–
Issue of shares on the Hong Kong Public Offering and the International Offering (the "**Global Offering**"), including exercise of over-allotment option (net of listing expenses of US$15,347,000)	683	496,111	–	–	–	–	–	–	496,794	–	496,794
Issue of shares in connection with Share Award Scheme B (note 22(ii))	17	(17)	–	–	–	–	–	–	–	–	–
Recognition of equity-settled share-based payment expense (note 29)	–	–	–	–	–	4,487	–	–	4,487	–	4,487
Vesting of shares in connection with Share Award Scheme B	–	3,714	–	–	–	(3,714)	–	–	–	–	–
Acquisition of non-controlling interests of subsidiaries	–	–	–	–	–	–	(5,262)	–	(5,262)	(1,838)	(7,100)
Dividend paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	(921)	(921)
Dividend paid (note 10)	–	–	–	–	–	–	–	(64,512)	(64,512)	–	(64,512)
At 31 December 2017	3,654	499,808	63,096	(50,270)	9,903	773	(5,262)	389,066	910,768	–	910,768

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company										
	Share capital US$'000	Share premium US$'000	Property revaluation reserve US$'000	Exchange reserve US$'000	Capital reserve US$'000	Share award reserve US$'000	Other reserve US$'000	Retained profits US$'000	Sub-total US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2016	12	–	88,172	(34,693)	–	–	–	478,469	531,960	–	531,960
Profit for the year	–	–	–	–	–	–	–	123,652	123,652	–	123,652
Exchange difference arising on translation of foreign operations	–	–	–	(29,647)	–	–	–	–	(29,647)	–	(29,647)
Remeasurement of defined benefit liabilities	–	–	–	–	–	–	–	(1,757)	(1,757)	–	(1,757)
Deferred tax credit arising on defined benefit liabilities	–	–	–	–	–	–	–	106	106	–	106
Surplus on revaluation of properties	–	–	16,924	–	–	–	–	–	16,924	–	16,924
Deferred tax expense arising on revaluation of properties	–	–	(3,759)	–	–	–	–	–	(3,759)	–	(3,759)
Deferred tax credit arising on disposal of a revalued property	–	–	7,340	–	–	–	–	–	7,340	–	7,340
Total comprehensive income (expense) for the year	–	–	20,505	(29,647)	–	–	–	122,001	112,859	–	112,859
Realisation of revaluation reserve	–	–	(52,547)	–	–	–	–	52,547	–	–	–
Recognition of equity-settled share-based payment expense (note 29)	–	–	–	–	9,903	–	–	–	9,903	–	9,903
Acquisition of subsidiaries (note 30)	–	–	–	–	–	–	–	–	–	2,671	2,671
Dividend paid (note 10)	–	–	–	–	–	–	–	(349,164)	(349,164)	–	(349,164)
At 31 December 2016	12	–	56,130	(64,340)	9,903	–	–	303,853	305,558	2,671	308,229

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 US$'000	2016 US$'000
OPERATING ACTIVITIES		
Profit before tax	**174,371**	144,780
Adjustments for:		
Interest income	**(644)**	(166)
Finance costs	**16,565**	4,853
Depreciation of property, plant and equipment	**55,371**	45,763
Amortisation of prepaid lease payments	**939**	709
Amortisation of intangible asset	**4,917**	–
Loss (gain) arising from changes in fair value/derecognition of derivative financial instruments	**1,648**	(1,878)
Loss (gain) on disposals of property, plant and equipment	**811**	(112)
Share of results of an associate	**2,669**	(1,304)
Reversal of impairment of other receivables	**(1,552)**	(208)
Write-down of inventories	**9,340**	17,059
Impairment loss recognised (reversal) in respect of property, plant and equipment	**1,641**	(2,280)
Reversal of allowance for trade receivables	**(842)**	(77)
Share-based payment expense	**4,487**	9,903
Loss on disposal of subsidiaries	**–**	6
Operating cash flows before movements in working capital	**269,721**	217,048
Increase in inventories	**(38,663)**	(26,291)
Increase in trade, bills and other receivables	**(44,161)**	(27,589)
Increase in amount due from an associate	**(525)**	–
Increase in amounts due from related companies	**(1,228)**	–
Increase in trade, bills and other payables	**10,834**	51,886
Decrease in amount due to an associate	**(2,235)**	(967)
Decrease in defined benefit liabilities	**(37)**	(2,862)
Cash generated from operations	**193,706**	211,225
Profits tax paid	**(20,903)**	(12,438)
NET CASH FROM OPERATING ACTIVITIES	**172,803**	198,787

	NOTES	2017 US$'000	2016 US$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(149,299)**	(90,557)
Acquisition of subsidiaries	30	**(90,916)**	(79,795)
Deposits paid for acquisition of property, plant and equipment		**(12,145)**	(4,573)
Purchase of prepaid lease payments		**(1,911)**	(12,397)
Proceeds on disposal of property, plant and equipment		**2,154**	55,384
Interest received		**644**	166
Loan receivables received		**601**	659
Payment on settlement of derivative financial instruments		**–**	(1,616)
Loan receivables advanced		**–**	(300)
Disposal of subsidiaries	31	**–**	(19)
NET CASH USED IN INVESTING ACTIVITIES		**(250,872)**	(133,048)
FINANCING ACTIVITIES			
New bank borrowings raised		**670,042**	563,530
Proceeds from issue of shares on Global Offering, including exercise of over-allotment option		**512,141**	–
Advance from ultimate holding company		**25,001**	97,992
Repayment of bank borrowings		**(613,858)**	(342,545)
Repayment to ultimate holding company		**(143,633)**	–
Dividend paid		**(64,512)**	(349,164)
Expenses on issue of shares		**(15,347)**	–
Interest paid		**(14,552)**	(4,853)
Acquisition of non-controlling interests of subsidiaries		**(7,100)**	–
Dividend paid to non-controlling interests of subsidiaries		**(921)**	–
Repayment to related companies		**(152)**	(52)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**347,109**	(35,092)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**269,040**	30,647
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(445)**	(1,269)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**144,101**	114,723
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by		**412,696**	144,101
Bank balances and cash		**416,721**	149,523
Bank overdrafts	26	**(4,025)**	(5,422)
		412,696	144,101

1. General

The Company was previously incorporated in Bermuda as an exempted company with limited liability. Pursuant to a special resolution passed on 5 December 2016, the Company discontinued in Bermuda and registered by way of continuation in the Cayman Islands as an exempted company with limited liability. Its parent and ultimate holding company is Crystal Group Limited (previously incorporated in Bermuda and redomiciled in the Cayman Islands). The address of the registered office of the Company is Ugland House, P.O. Box 309, Grand Cayman KY1-1104, Cayman Islands and the principal place of business of the Company is Crystal Industrial Building, 71 How Ming Street, Kwun Tong, Hong Kong.

Pursuant to a special resolution passed on 15 March 2017 and the approval from the Registrar of Companies in the Cayman Islands on 16 March 2017, the Company changed its name to Crystal International Group Limited (formerly known as Crystal International Limited).

The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 3 November 2017.

The consolidated financial statements are presented in United States dollars ("**US$**"), which is also the functional currency of the Company.

The Company is an investment holding company and the activities of its principal subsidiaries and associate are set out in notes 39 and 16 respectively.

2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs")

For the purpose of preparing and presenting the consolidated financial statements of the Group for the year ended 31 December 2017, the Group has consistently adopted the accounting policies which conform with IFRSs that are effective for the financial period beginning on 1 January 2017 throughout the year.

New and Amendments to IFRSs and Interpretations in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs and interpretations that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendements[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014 - 2016 Cycle[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015 - 2017 Cycle[2]

[1] *Effective for annual periods beginning on or after 1 January 2018*
[2] *Effective for annual periods beginning on or after 1 January 2019*
[3] *Effective for annual periods beginning on or after a date to be determined*
[4] *Effective for annual periods beginning on or after 1 January 2021*

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

The key requirement of IFRS 9 which is relevant to the Group is in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39 "Financial Instruments: Recognition and Measurement". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") continued

IFRS 9 Financial Instruments continued

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognised under the expected credit loss model would reduce the opening retained profits at 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

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

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of IFRS 15 in the future may result in more disclosures. The directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") continued

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 "Leases" and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for own use while other operating lease payments are presented as operating cash flows. Under IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows except for the short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of the lease liability within operating cash flows.

Under IAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Extensive disclosures are required by IFRS 16.

At 31 December 2017, the Group has non-cancellable operating lease commitments of approximately US$31,418,000 as disclosed in note 35 of which US$31,196,000 had original lease terms over 1 year. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases at its present value upon the application of IFRS 16. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") continued

IFRS 16 Leases continued

In addition, the Group currently considers refundable rental deposits paid of US$2,291,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets; accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments would be considered as additional lease payments. Adjustments of refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Except as described above, the directors of the Company anticipate that the application of other new and amendments to IFRSs and interpretations issued but not yet effective will have no material impact on the Group's consolidated financial statements.

3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 "Share-based Payment", leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

3. Significant Accounting Policies continued

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. Significant Accounting Policies continued

Basis of Consolidation continued

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, as the cost on initial recognition of an investment in an associate or a joint venture.

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

3. Significant Accounting Policies continued

Business Combinations continued

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed at acquisition date. If, after re-assessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that does not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost established at the date of the acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units ("**CGUs**") or groups of CGU that is expected to benefit from the synergies of the combination, which represents the lowest level at which the goodwill is monitored for internal management purposes and is not larger than an operating segment.

3. Significant Accounting Policies continued

Goodwill continued

A CGU or groups of CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU or groups of CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or groups of CGU.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investment in an Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of an associate used for equity accounting purposes are prepared using accounting policies that are uniform with those of the Group for like transactions and events in similar circumstances. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. Significant Accounting Policies continued

Investment in an Associate continued

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposal of the interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and sales related tax.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

3. Significant Accounting Policies continued

Property, Plant and Equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost or revalued amount less subsequent accumulated depreciation and accumulated impairment losses, if any.

Any revaluation increase arising on the revaluation of land and buildings is recognised in other comprehensive income and accumulated in property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is recognised to write off the cost or revalued amount of items of property, plant and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Prepaid Lease Payments

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease terms on a straight line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

3. Significant Accounting Policies continued

Research and Development Expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is recognised as an expense in the period in which it is incurred when there is no internally-generated intangible asset arising from development activities.

Intangible Assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment Losses on Tangible and Intangible Assets other than Goodwill (see the Accounting Policy in respect of Goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount is the higher of 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 for which the estimates of future cash flows have not been adjusted.

3. Significant Accounting Policies continued

Impairment Losses on Tangible and Intangible Assets other than Goodwill (see the Accounting Policy in respect of Goodwill above) continued

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Leasing

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight line basis over the lease terms, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation of which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

3. Significant Accounting Policies continued

Foreign Currencies continued

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. US$) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes financial assets), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposal of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

3. Significant Accounting Policies continued

Taxation continued

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interest in an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. Significant Accounting Policies continued

Retirement Benefit Costs and Termination Benefits

Payments to defined contribution retirement benefit plans, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to have the contributions made.

For the defined benefit plan, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of the annual reporting period.

Defined benefit costs are categorised as service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense or income and remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss. Curtailment gains and losses are accounted for as past service costs. Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment and is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Remeasurement, comprising actuarial gains and losses, and the return on plan assets (excluding amounts included in net interest on the net defined benefit liabilities/assets), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained profits and will not be reclassified to profit or loss.

The retirement benefit obligation or asset recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plan. Any such surplus is limited to the present value of any economic benefits available in the form of refunds or reductions in future contributions to the plans.

Termination benefits result from either the Group's decision to terminate the employment or an employee's decision to accept the Group's offer of benefits in exchange for termination of employment. The Group recognises a liability for benefits at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

3. Significant Accounting Policies *continued*

Share-based Payment Arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed to profit or loss on a straight line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (capital reserve or share award reserve).

For grants of shares that vest immediately at the date of grant, the fair value of the awarded shares is recognised immediately in profit or loss.

When the awarded shares vest and are transferred to the awardees, the amount previously recognised in the share award reserve will be transferred to share premium. When the share awards lapse, the amount previously recognised in share award reserve will be transferred to retained profits.

Financial Instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into financial assets at fair value through profit or loss ("**FVTPL**") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

3. Significant Accounting Policies *continued*

Financial Instruments *continued*

Financial assets continued

Financial assets at FVTPL

Financial assets are classified at FVTPL when the financial asset is (i) held for trading or (ii) designated at FTVPL or (iii) contingent consideration that may be received by an acquirer as part of a business combination to which IFRS 3 "Business Combinations" applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedge instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 33c.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade, bills and other receivables, amount due from an associate, amounts due from related companies, loan receivables, and bank balances and cash) are recorded at amortised cost using the effective interest method, less any impairment losses (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. Significant Accounting Policies continued

Financial Instruments continued

Financial assets continued

Impairment of financial assets continued

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised as the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and premiums paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

3. Significant Accounting Policies continued

Financial Instruments continued

Financial liabilities and equity instruments continued

Financial liabilities at amortised cost

Financial liabilities other than derivatives (including trade, bills and other payables, amounts due to ultimate holding company/an associate/related companies and bank borrowings) are subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is credited or charged to profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for the amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going 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.

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

Impairment Assessment of Goodwill and Intangible Assets

Customer relationships with finite useful lives are reviewed for impairment when events or circumstances indicate the carrying value may not be recoverable at the end of the reporting period. In the opinion of directors of the Company, there is no indicators of impairment (including adverse changes to financial performance such as profit margin, adverse changes to continuing customer portfolios etc.) identified for customer relationships at 31 December 2017.

Goodwill and brand name with an indefinite useful life are reviewed for impairment annually, irrespective of whether there is any indication that they may be impaired. Determining whether goodwill and intangible assets are impaired requires an estimation of the recoverable amount of the CGU to which goodwill and intangible assets have been allocated. The recoverable amount of the CGU at the end of the reporting period is based on the higher of the fair value less costs of disposal and value in use. The value in use calculation requires the management of the Group to estimate the future cash flows expected to arise from the CGU which includes key assumptions for cash flow projections including yearly growth rates of revenue, gross margin, discount rate and management's expectation of market conditions. Where the actual future cash flows are less than expected, a material impairment loss may arise.

The Group has not recognised an impairment loss during the year since the recoverable amount of the CGU of Vista Corp Holdings Limited ("**Vista**"), which includes goodwill and brand name, exceeds its carrying amount.

The carrying amounts of goodwill and intangible assets are US$74,941,000 and US$100,610,000 (2016: US$74,941,000 and US$105,527,000), respectively, at 31 December 2017 (see notes 14 and 15).

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

continued

Assessment of the Net Realisable Value of Inventories

Inventories are stated at the lower of cost and net realisable values. The management of the Group is required to exercise judgement in identifying slow-moving and obsolete inventories and determine the write-down of inventories based on latest selling price and market conditions at the end of the year. The identification of slow-moving and obsolete inventories is based on the aged analysis of inventory and recent or subsequent usages/sales. When the actual net realisable values are lower than expectation, such difference will impact the carrying amounts of inventories.

At 31 December 2017, the carrying amount of inventories is US$249,372,000 (2016: US$217,114,000) (see note 18). During the year ended 31 December 2017, an expense of US$9,340,000 (2016: US$17,059,000) was recognised in profit or loss to write down the cost of inventories to their net realisable values.

Depreciation

The Group depreciates property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight line method. The estimated useful lives reflect the estimates of the directors of the Company of the periods based on the Group's historical experience with similar assets. The residual value reflects their estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal.

Details of depreciation policies are set out in note 11.

Fair Value Measurements and Valuation Processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The directors of the Company are responsible for determining the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The directors of the Company work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of properties and certain types of financial instruments. Notes 11 and 33c provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair values of various assets.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

continued

Estimated Impairment of Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment, if any. The directors of the Company review their carrying amounts whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable at the end of the reporting period. An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or there are any indicators that may affect the asset value; (2) whether, in case there is an impairment indicator, the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate.

After considering the events and circumstances mentioned in note 11, which indicate the carrying amounts of certain property, plant and equipment may not be recovered, an impairment loss of approximately US$1,641,000 (2016: nil) was recognised in profit or loss during the current year. In the opinion of the directors of the Company, there was no other indicator of impairment (including obsolescence or physical damage, low utilisation rate of property, plant and equipment etc.) identified for the remaining property, plant and equipment at the end of the year.

At 31 December 2017, the carrying amounts of property, plant and equipment are approximately US$574,438,000 (2016: US$462,807,000) (see note 11).

Assessment of the Useful Lives of Intangible Assets

Intangible asset with a finite useful life

The intangible asset with a finite useful life of the Group represents the customer relationship arising from acquisition of Vista which is amortised on a straight line basis over the estimated useful life of the asset. The Group determines the estimated useful life of the customer relationship on initial recognition in order to determine the amount of amortisation expense to be recorded during any reporting period. The useful life of the customer relationship was determined with reference to a number of factors, including the useful lives of similar intangible assets in certain comparable transactions, historical customer data, and management's experience and industry knowledge. The amortisation expense for future periods is adjusted if there are significant changes from previous estimates. The carrying amount of the customer relationship is US$68,833,000 at 31 December 2017 (2016: US$73,750,000) (see note 15).

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty continued

Assessment of the Useful Lives of Intangible Assets continued

Intangible asset with an indefinite useful life

The intangible asset with an indefinite useful life of the Group represents the brand name arising from the acquisition of Vista. Management estimates the useful life of the brand name based on the expected lifespan of the brand name. The brand name is considered by management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows to the Group indefinitely taking into account the long history of Vista's operation.

The useful life of the brand name could change significantly as a result of the regulatory and commercial environment. When the actual useful life of the brand name due to the change of regulatory and commercial environment is different from its estimated useful life, such difference will impact the amortisation charges and the amounts of asset written down for future periods. The carrying amount of the brand name is US$31,777,000 (2016: US$31,777,000) at 31 December 2017 (see note 15).

5. Revenue and Segment Information

The Group is principally engaged in the manufacturing and trading of garments.

Information reported to the directors of the Company, being the chief operating decision maker (the "**CODM**"), for the purposes of resource allocation and assessment of segment performance focuses on types of products.

(i) Lifestyle wear

(ii) Denim

(iii) Intimate

(iv) Sweater

(v) Sportswear and outdoor apparel (new segment during the year ended 31 December 2017)

(vi) Others

These operating segments also represent the Group's reportable segments. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

5. Revenue and Segment Information *continued*

Segment Revenues and Results

The following is an analysis of the Group's revenue and results by operating segments:

Year ended 31 December 2017

	Lifestyle wear US$'000	Denim US$'000	Intimate US$'000	Sweater US$'000	Sportswear and outdoor apparel US$'000	Others US$'000	Total US$'000
SEGMENT REVENUE							
External sales	799,835	560,230	378,263	209,565	216,497	13,604	2,177,994
Segment profit	153,154	110,350	84,026	42,967	41,404	10,510	442,411
Other income							9,297
Selling and distribution expenses							(39,710)
Administrative and other expenses							(218,393)
Finance costs							(16,565)
Share of results of an associate							(2,669)
Profit before tax							174,371

Year ended 31 December 2016

	Lifestyle wear US$'000	Denim US$'000	Intimate US$'000	Sweater US$'000	Others US$'000	Total US$'000
SEGMENT REVENUE						
External sales	748,488	484,152	294,209	223,131	13,412	1,763,392
Segment profit	147,466	85,585	59,889	53,182	9,540	355,662
Other income						20,844
Selling and distribution expenses						(32,076)
Administrative and other expenses						(196,101)
Finance costs						(4,853)
Share of results of an associate						1,304
Profit before tax						144,780

5. Revenue and Segment Information *continued*

Segment Revenues and Results *continued*

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of other income, selling and distribution expenses, administrative and other expenses, finance costs, and share of results of an associate. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

No further analysis is presented for certain items included or excluded in the measure of segment result as such information is not regularly provided to the CODM.

Segment Assets and Liabilities

No analysis of segment assets or segment liabilities is presented as such information is not regularly provided to the CODM.

Revenue from Major Customers

Revenue from customers individually contributing over 10% of the Group's revenue is as follows:

	Segment	**2017** **US$'000**	2016 US$'000
Customer A	Lifestyle wear, Intimate, Sweater and Sportswear and outdoor apparel	**717,182**	639,149
Customer B	Lifestyle wear, Denim, Sweater and Sportswear and outdoor apparel	**219,967**	192,530

Geographical Information

Information about the Group's revenue is presented below by geographical location based on port of discharge:

	2017 **US$'000**	2016 US$'000
Asia Pacific (note i)	**844,402**	695,184
United States	**803,089**	614,072
Europe (note ii)	**451,302**	392,431
Other countries/regions	**79,201**	61,705
	2,177,994	1,763,392

Notes:

*(i) Asia Pacific primarily includes Japan, the People's Republic of China (the "**PRC**"), Hong Kong and South Korea.*

*(ii) Europe primarily includes the United Kingdom (the "**U.K.**"), Belgium and Germany.*

5. Revenue and Segment Information continued

Geographical Information continued

Information about the Group's non-current assets other than loan receivables is presented below by the geographical location of the assets:

	2017 US$'000	2016 US$'000
Asia Pacific (note i)	**802,940**	691,906
Europe (note ii)	**9,142**	7,067
	812,082	698,973

Notes:

(i) Asia Pacific primarily includes Bangladesh, Cambodia, Hong Kong, the PRC, Singapore, Sri Lanka and Vietnam.

(ii) Europe primarily includes the U.K..

6. Profit Before Tax

	2017 US$'000	2016 US$'000
Profit before tax has been arrived at after charging (crediting):		
Directors' emoluments (note 7)	6,652	14,389
Other staff costs	480,045	410,956
Retirement benefit schemes contributions for other staff	40,626	29,699
Total staff costs	527,323	455,044
Amortisation of prepaid lease payments	939	709
Auditors' remuneration:		
- audit services	1,299	848
- non-audit services	1,706	318
Cost of inventories recognised as expenses	1,726,243	1,390,671
Write-down of inventories	9,340	17,059
Depreciation of property, plant and equipment	55,371	45,763
Impairment loss recognised (reversal) in respect of property, plant and equipment	1,641	(2,280)
Amortisation of intangible asset (included in selling and distribution expenses)	4,917	–
Loss (gain) on disposals of property, plant and equipment	811	(112)
Reversal of impairment of other receivables	(1,552)	(208)
Reversal of allowance for trade receivables, net	(842)	(77)
Loss (gain) arising from changes in fair value/derecognition of derivative financial instruments	1,648	(1,878)
Interest income	(644)	(166)
Net foreign exchange loss (gain)	7,312	(4,880)
Loss on disposal of subsidiaries	–	6
Research and development expenses	41,461	29,279
Listing expenses	7,901	748
Finance costs:		
- imputed interest of consideration payable on acquisition of subsidiaries	2,013	–
- interest on bank borrowings	14,552	4,853

7. Directors' and Employees' Emoluments

Directors' Emoluments

Details of the emoluments paid or payable to the directors of the Company during current year are as follows:

	Fees US$'000	Salaries and allowances US$'000	Performance-based bonuses US$'000 (note iii)	Retirement benefit schemes contributions US$'000	Total US$'000
For the year ended 31 December 2017					
Executive directors (note i):					
Mr. LO Lok Fung Kenneth	–	919	–	–	919
Mrs. LO CHOY Yuk Ching Yvonne	–	367	–	–	367
Mr. LO Ching Leung Andrew (note iv)	–	962	1,106	23	2,091
Mr. WONG Chi Fai	–	598	737	33	1,368
Mr. WONG Sing Wah	–	744	965	40	1,749
Independent non-executive directors (note ii):					
Mr. GRIFFITHS Anthony Nigel Clifton	58	–	–	–	58
Mr. TSE Man Bun Benny	33	–	–	–	33
Mr. CHANG George Ka Ki	33	–	–	–	33
Mr. MAK Wing Sum Alvin	34	–	–	–	34
	158	3,590	2,808	96	6,652

7. Directors' and Employees' Emoluments *continued*

Directors' Emoluments *continued*

	Fees US$'000	Salaries and allowances US$'000	Performance-based bonuses US$'000 (note iii)	Share-based payment expense US$'000 (note v)	Retirement benefit schemes contributions US$'000	Total US$'000
For the year ended 31 December 2016						
Executive directors (note i):						
Mr. LO Lok Fung Kenneth	–	643	–	–	–	643
Mrs. LO CHOY Yuk Ching Yvonne	–	368	–	–	–	368
Mr. LO Ching Leung Andrew (note iv)	–	961	866	3,249	23	5,099
Mr. WONG Chi Fai	–	530	1,018	1,934	30	3,512
Mr. WONG Sing Wah	–	573	1,009	3,017	23	4,622
Independent non-executive directors (note ii):						
Mr. GRIFFITHS Anthony Nigel Clifton	55	–	–	–	–	55
Mr. TSE Man Bun Benny	30	–	–	–	–	30
Mr. CHANG George Ka Ki	30	–	–	–	–	30
Mr. MAK Wing Sum Alvin	30	–	–	–	–	30
	145	3,075	2,893	8,200	76	14,389

Notes:

(i) The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

(ii) The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

(iii) The amounts represent performance-based bonuses paid to the directors to reward their contribution to the Group, based on the performance of the Group.

(iv) Mr. LO Ching Leung Andrew is also the Chief Executive Officer of the Company during the years ended 31 December 2017 and 2016.

(v) The amounts represent the share-based payment expense during the year ended 31 December 2016 for Share Award Scheme A, details of which are set out in note 29.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2017 and 2016.

7. Directors' and Employees' Emoluments continued

Five Highest Paid Individuals' Emoluments

The five individuals with the highest emoluments in the Group include 4 (2016: 3) directors of the Company. The emoluments of the five highest paid individuals are as follows:

	2017 US$'000	2016 US$'000
Salaries and allowances	**3,589**	2,748
Performance-based bonuses (note)	**3,268**	3,699
Retirement benefit schemes contributions	**111**	102
Share-based payment expense	**–**	9,051
	6,968	15,600

Note: The amounts represent performance-based bonuses paid to the five highest paid individuals to reward their contribution to the Group.

Their emoluments were within the following bands (presented in Hong Kong dollars ("**HKD**")):

	Number of directors		**Number of employees**	
	2017	2016	**2017**	2016
HKD6,500,001 to HKD7,000,000	**–**	–	**1**	–
HKD7,000,001 to HKD7,500,000	**1**	–	**–**	–
HKD8,500,001 to HKD9,000,000	**–**	–	**–**	1
HKD9,500,001 to HKD10,000,000	**–**	–	**–**	1
HKD10,500,001 to HKD11,000,000	**1**	–	**–**	–
HKD13,500,001 to HKD14,000,000	**1**	–	**–**	–
HKD16,000,001 to HKD16,500,000	**1**	–	**–**	–
HKD27,000,001 to HKD27,500,000	**–**	1	**–**	–
HKD35,500,001 to HKD36,000,000	**–**	1	**–**	–
HKD39,500,001 to HKD40,000,000	**–**	1	**–**	–
	4	3	**1**	2

During the years ended 31 December 2017 and 2016, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the years ended 31 December 2017 and 2016.

8. Income Tax Expense

	2017 **US$'000**	2016 US$'000
The income tax expense comprises:		
Hong Kong Profits Tax		
- current year	**16,136**	14,440
- overprovision in prior years	**(5)**	(12)
Overseas taxation		
- current year	**10,795**	7,552
- under(over)provision in prior years	**38**	(822)
	26,964	21,158
Deferred taxation (note 24)	**(1,110)**	(30)
	25,854	21,128

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

All of the Group's subsidiaries incorporated in Macau are registered and regulated by the Decree Law No. 58/99/M applicable to Macao offshore commercial activities and are exempted from Macao Complementary Tax.

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

	2017 **US$'000**	2016 US$'000
Profit before tax	**174,371**	144,780
Tax at the Hong Kong Profits Tax rate of 16.5%	**28,771**	23,889
Tax effect of expenses not deductible for tax purpose	**3,547**	5,158
Tax effect of income not taxable for tax purpose	**(1,601)**	(4,596)
Tax effect of tax losses not recognised	**773**	1,994
Utilisation of tax losses previously not recognised	**(1,216)**	(515)
Utilisation of deductible temporary differences not previously recognised	**(192)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,949**	2,672
Effect of tax exemptions granted to subsidiaries operating in Macau	**(6,210)**	(6,640)
Under(over)provision in prior years	**33**	(834)
Income tax expense for the year	**25,854**	21,128

Details of deferred taxation are set out in note 24.

9. Earnings per Share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2017 **US$'000**	2016 US$'000
Earnings:		
Profit for the year attributable to owners of the Company for the purpose of calculating basic and diluted earnings per share	**148,429**	123,652
Number of shares:	**'000**	'000
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (note i and ii)	**2,392,728**	2,306,880
Effect of dilutive potential ordinary shares:		
- Share Award Scheme B	**611**	–
- Over-allotment option	**68**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,393,407**	N/A

Notes:

(i) The weighted average number of ordinary shares above has been arrived at after deducting the second and third tranches of award shares that are not yet vested but held by the trustee of Share Award Scheme B as set out in note 29.

(ii) The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted retrospectively for both years for the effect of the re-denomination issue described in note 22.

No diluted earnings per share for the year ended 31 December 2016 were presented as there were no potential ordinary shares in issue during the year ended 31 December 2016.

10. Dividends

	2017 **US$'000**	2016 US$'000
Interim, paid - US$5,376 per share for 2017 (2016: US$29,097 per share)	**64,512**	349,164

A final dividend of HKD0.123 (2016: nil) per share in total of approximately HKD350,897,000 (equivalent to approximately US$44,890,000) (2016: nil) in respect of the year ended 31 December 2017 has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

11. Property, Plant and Equipment

	Freehold land, leasehold land and buildings US$'000	Leasehold improvements US$'000	Plant and machinery US$'000	Furniture, fixtures and office equipment US$'000	Motor vehicles US$'000	Computer equipment and software US$'000	Construction in progress US$'000	Total US$'000
COST OR VALUATION								
At 1 January 2016	269,110	41,436	249,196	74,401	6,303	26,432	7,143	674,021
Exchange realignment	(9,791)	(1,942)	(10,769)	(5,576)	(244)	(923)	(409)	(29,654)
Additions	19,492	7,319	29,432	8,311	827	3,187	19,365	87,933
Acquisition of subsidiaries (note 30)	16,408	1,125	7,470	853	519	878	275	27,528
Transfers	10,315	1,976	1,672	7,479	55	719	(22,216)	–
Disposals	(54,921)	(3,630)	(15,142)	(3,228)	(1,274)	(1,676)	–	(79,871)
Disposal of subsidiaries (note 31)	(3,661)	–	–	–	–	–	–	(3,661)
Surplus on revaluation	7,498	–	–	–	–	–	–	7,498
At 31 December 2016	254,450	46,284	261,859	82,240	6,186	28,617	4,158	683,794
Exchange realignment	6,279	1,705	5,800	3,420	160	2,133	(879)	18,618
Additions	4,188	12,022	44,626	10,825	1,019	8,227	70,918	151,825
Transfers	5,739	100	1,899	384	13	383	(8,518)	–
Disposals	(350)	(1,404)	(5,336)	(1,781)	(403)	(782)	(151)	(10,207)
Deficit on revaluation	(498)	–	–	–	–	–	–	(498)
At 31 December 2017	269,808	58,707	308,848	95,088	6,975	38,578	65,528	843,532
Comprising:								
At cost	12,035	58,707	308,848	95,088	6,975	38,578	65,528	585,759
At valuation	257,773	–	–	–	–	–	–	257,773
At 31 December 2017	269,808	58,707	308,848	95,088	6,975	38,578	65,528	843,532

11. Property, Plant and Equipment continued

	Freehold land, leasehold land and buildings US$'000	Leasehold improvements US$'000	Plant and machinery US$'000	Furniture, fixtures and office equipment US$'000	Motor vehicles US$'000	Computer equipment and software US$'000	Construction in progress US$'000	Total US$'000
DEPRECIATION AND IMPAIRMENT								
At 1 January 2016	4,715	22,274	120,556	50,315	3,925	21,722	–	223,507
Exchange realignment	(192)	(375)	(5,650)	(4,034)	(132)	(659)	–	(11,042)
Reversal of impairment loss recognised (note i)	–	–	(2,280)	–	–	–	–	(2,280)
Provided for the year	9,327	4,581	16,666	11,470	882	2,837	–	45,763
Eliminated on disposals	(1,826)	(3,189)	(13,773)	(3,026)	(1,180)	(1,605)	–	(24,599)
Eliminated on disposal of subsidiaries (note 31)	(936)	–	–	–	–	–	–	(936)
Eliminated on revaluation	(9,426)	–	–	–	–	–	–	(9,426)
At 31 December 2016	1,662	23,291	115,519	54,725	3,495	22,295	–	220,987
Exchange realignment	55	722	2,770	2,598	122	1,204	–	7,471
Impairment loss recognised (note ii)	–	444	946	30	65	156	–	1,641
Provided for the year	9,205	6,129	24,968	9,372	999	4,698	–	55,371
Eliminated on disposals	(26)	(743)	(3,623)	(1,738)	(362)	(750)	–	(7,242)
Eliminated on revaluation	(9,134)	–	–	–	–	–	–	(9,134)
At 31 December 2017	1,762	29,843	140,580	64,987	4,319	27,603	–	269,094
CARRYING VALUES								
At 31 December 2017	268,046	28,864	168,268	30,101	2,656	10,975	65,528	574,438
At 31 December 2016	252,788	22,993	146,340	27,515	2,691	6,322	4,158	462,807

Notes:

(i) For the year ended 31 December 2016, as a result of the assessment of the usage of each item of machinery, the directors of the Company considered that some of the machinery could be used in overseas factories. The assessment led to the reversal of an impairment loss of US$2,280,000. The recoverable amount of the relevant assets has been determined on the basis of their value in use.

(ii) For the year ended 31 December 2017, as a result of the reallocation of business operations in the PRC factories, the Group carried out a review of the recoverable amount of the related property, plant and equipment being fair value less costs of disposal. The directors of the Company considered that the recoverable amount of the relevant assets was minimal upon disposal and an impairment loss of approximately US$1,641,000 was fully recognised in profit or loss.

(iii) At 31 December 2017, for buildings with carrying values of US$8,570,000 (2016: US$8,793,000), no real estate title certificate has been issued. The Group is in the process of applying for the building ownership certificates.

11. Property, Plant and Equipment continued

The above items of property, plant and equipment, except for freehold land and construction in progress, are depreciated on a straight line basis at the following rates per annum:

Leasehold land	Over the terms of the relevant lease
Buildings	1 - 5% or over the term of the relevant lease, if shorter
Leasehold improvements	5 - 20% or over the term of the relevant lease, if shorter
Plant and machinery	10 - 50%
Furniture, fixtures and office equipment	12½ - 50%
Motor vehicles	20 - 25%
Computer equipment and software	20 - 33⅓%

Fair Value Measurement of the Group's Land and Buildings

Certain of the Group's land and buildings were valued on 31 December 2016 and 2017 by independent firms of professional property valuers not related to the Group. The fair values of the land and buildings in Bangladesh, Cambodia, Singapore and the U.K. were determined based on the market comparable approach reflecting recent transaction prices for similar properties, adjusted for differences in the nature, location and condition of the land and buildings under review. The fair values of buildings in the PRC and Vietnam were determined based on the depreciated replacement cost approach by estimating the current gross replacement costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation. There has been no change to the valuation technique during the year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

One of the key unobservable inputs used in valuing the land was the price per square metre, which ranged from US$21 to US$76 (2016: US$20 to US$78). A slight increase in the price per square metre used would result in a significant increase in the fair value measurement of the land, and vice versa.

One of the key unobservable inputs used in valuing the buildings was the price per square metre, which ranged from US$95 to US$1,498 (2016: US$119 to US$1,480). A slight increase in the price per square metre used would result in a significant increase in the fair value measurement of the buildings, and vice versa.

11. Property, Plant and Equipment *continued*

Fair Value Measurement of the Group's Land and Buildings *continued*

Details of the Group's land and buildings and information about the fair value hierarchy at 31 December 2017 and 2016 are as follows:

	Level 3 US$'000	**Fair value at 31.12.2017** **US$'000**	Level 3 US$'000	Fair value at 31.12.2016 US$'000
Land and buildings outside Hong Kong	257,773	**257,773**	243,729	243,729

There were no transfers into or out of Level 3 during both years.

Had land and buildings at valuation been carried at cost less accumulated depreciation, the aggregate carrying values of land and buildings would have been approximately US$186,125,000 (2016: US$181,987,000).

At 31 December 2017, land and buildings with carrying values of approximately US$12,835,000 (2016: US$10,484,000), have been pledged to banks to secure general banking facilities granted to the Group.

12. Deposits paid for Acquisition of Property, Plant and Equipment

The deposits were paid by the Group in connection with the acquisition of property, plant and equipment and the related capital commitments are disclosed in note 34.

13. Prepaid Lease Payments

	2017 **US$'000**	2016 US$'000
Analysed for reporting purposes as:		
Non-current assets	**34,752**	33,324
Current assets	**879**	843
	35,631	34,167

14. Goodwill

	US$'000
COST	
At 1 January 2016	–
Arising on acquisition of subsidiaries (note 30)	74,941
At 31 December 2016 and 2017	74,941

For the purpose of impairment testing, goodwill and brand name (note 15) of approximately US$74,941,000 (2016: US$74,941,000) and US$31,777,000 (2016: US$31,777,000), respectively, have been allocated to the CGU representing Vista.

The recoverable amount of the CGU of Vista at 31 December 2017 has been calculated based on its value in use. That calculation uses cash flow projections based on financial projections approved by management of the Group covering a three-year period with a pre-tax discount rate of 15.3% (2016: 15.5%), a yearly growth rate of revenue of 10% (2016: 10%) and a gross margins of 19.1% (2016: 16.8% to 18.0%). Cash flows beyond the three-year period are extrapolated using a steady 3% (2016: 3%) growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash flows, which includes projected sales. The estimation of the key assumptions is based on past performance of Vista and management's expectations of market conditions. The Group has not recognised an impairment loss during the year ended 31 December 2017 (2016: nil) based on the impairment assessment performed.

The recoverable amount of the CGU of Vista exceeds its carrying amount by US$21,776,000 (2016: nil) at 31 December 2017.

The effect of the reasonably possible change in key assumptions on the calculation of value in use of the CGU of Vista, which would cause the carrying amount to exceed its recoverable amount is disclosed below.

If the yearly growth rate of revenue during the three-year period decreased by 1% or 3% and all other variables were held constant, the carrying amount of the CGU of Vista would exceed its recoverable amount by approximately nil or nil (2016: US$6,709,000 or US$19,786,000), respectively, at 31 December 2017.

If the gross margins decreased by 0.5% or 1% and all other variables were held constant, the carrying amount of the CGU of Vista would exceed its recoverable amount by approximately nil or nil (2016: US$10,826,000 or US$21,652,000), respectively, at 31 December 2017.

If the pre-tax discount rate increased by 0.5% or 1% and all other variables were held constant, the carrying amount of the CGU of Vista would exceed its recoverable amount by approximately nil or nil (2016: US$7,707,000 or US$14,846,000), respectively, at 31 December 2017.

If the long-term growth rate decreased by 0.5% or 1% and all other variables were held constant, the carrying amount of the CGU of Vista would exceed its recoverable amount by approximately nil or nil (2016: US$4,062,000 or US$7,824,000), respectively, at 31 December 2017.

15. Intangible Assets

	Customer relationship US$'000	Brand name US$'000	Total US$'000
COST			
At 1 January 2016	–	–	–
Acquisition of subsidiaries (note 30)	73,750	31,777	105,527
At 31 December 2016 and 2017	73,750	31,777	105,527
AMORTISATION			
At 1 January 2016 and 31 December 2016	–	–	–
Provided for the year	4,917	–	4,917
At 31 December 2017	4,917	–	4,917
CARRYING VALUE			
At 31 December 2017	68,833	31,777	100,610
At 31 December 2016	73,750	31,777	105,527

For the purpose of impairment testing, brand name has been allocated to the CGU representing Vista (note 14).

Customer relationship and brand name acquired in the business combination are identified and recognised as intangible assets.

The aggregate amount of customer relationship is amortised over the period of the useful lives of the various relationships, which is assessed as being 15 years. Brand name is treated as having an indefinite useful life because it is expected to contribute to net cash inflows to the Group indefinitely. Therefore, it is not amortised until its useful life is determined to be finite.

Particulars regarding impairment testing of goodwill and other intangible assets at 31 December 2017 are set out in note 14.

16. Interest in an Associate

	2017 US$'000	2016 US$'000
Cost of unlisted investment in an associate	**125**	125
Share of post-acquisition loss and other comprehensive expense	**(3,554)**	(949)
	(3,429)	(824)
Deemed contribution to an associate (note)	**18,625**	18,625
	15,196	17,801

Note: Deemed contribution to an associate represents a loan advanced to an associate which is unsecured, interest-free and without fixed repayment terms. In the opinion of the directors of the Company, the loan in substance formed part of the investment in an associate.

At 31 December 2017 and 2016, the Group has interest in the following associate:

Name of entity	Place of incorporation/ operation	Class of shares held	Proportion of nominal value of issued capital held by the Group	Proportion of voting power held	Principal activity
PCGT Limited	Hong Kong	Ordinary	25%	25%	Trading of textile products

The above associate is accounted for using the equity method in these consolidated financial statements.

Information of an Associate that is not Material

	2017 US$'000	2016 US$'000
The Group's share of (loss) profit for the year	**(2,669)**	1,304
The Group's share of other comprehensive income (expense) for the year	**64**	(96)
The Group's share of total comprehensive (expense) income for the year	**(2,605)**	1,208
The Group's share of the net liabilities of an associate	**(3,429)**	(824)

17. Loan Receivables

Except for the amounts of approximately US$1,038,000 (2016: US$1,335,000) which carry interest rates of 2.9% (2016: 2.9%) per annum, the amounts are unsecured, interest-free and repayable by instalments until 2021.

18. Inventories

	2017 US$'000	2016 US$'000
Raw materials	83,882	58,045
Work in progress	138,573	140,935
Finished goods	26,917	18,134
	249,372	217,114

At 31 December 2017, approximately US$8,100,000 (2016: US$7,646,000) of the Group's inventories have been pledged to banks to secure general banking facilities granted to the Group.

19. Trade, Bills and Other Receivables

	2017 US$'000	2016 US$'000
Trade receivables	285,883	236,288
Less: allowance for doubtful debts	(38)	(880)
	285,845	235,408
Bills receivable	949	2,393
Temporary payments	6,283	6,630
Other deposits and prepayments	44,520	43,109
	337,597	287,540

At 31 December 2017, approximately US$31,781,000 (2016: US$30,395,000) of the Group's trade receivables have been pledged to banks to secure general banking facilities granted to the Group.

The Group allows credit periods ranging from 15 to 120 days to its trade customers. The following is an aged analysis of trade receivables, net of allowance for doubtful debts, based on invoice dates.

	2017 US$'000	2016 US$'000
Within 60 days	263,388	222,403
61 to 90 days	19,030	12,743
91 to 120 days	2,070	226
over 120 days	1,357	36
	285,845	235,408

Before accepting any new customers, the Group uses an internal credit assessment process to assess the potential customers' credit quality and defines credit limits by customers. Limits attributed to customers are reviewed regularly.

19. Trade, Bills and Other Receivables continued

Included in the Group's trade receivables are debtors with an aggregate carrying amount of approximately US$28,588,000 (2016: US$26,631,000) which are past due at the reporting date and the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 30 days (2016: 33 days).

In the opinion of the directors of the Company, the trade receivables which are past due but not impaired are of good credit quality.

The following is an aged analysis of trade receivables which are past due but not impaired, based on the dates due.

	2017 **US$'000**	2016 US$'000
Overdue by:		
1 - 60 days	**28,369**	26,460
61 - 90 days	**126**	171
over 90 days	**93**	–
	28,588	26,631

Movement in the allowance for doubtful debts:

	2017 **US$'000**	2016 US$'000
At beginning of the year	**880**	957
Reversal of allowance for the year	**(842)**	(77)
At end of the year	**38**	880

20. Derivative Financial Instruments

	2017 **US$'000**	2016 US$'000
Derivative financial assets		
– Call and put options on investment in a subsidiary	**–**	1,648

Pursuant to a joint venture agreement dated 3 March 2010 made between SL Global Pte. Ltd. ("**SLG**"), a wholly owned subsidiary of Vista, and other non-controlling shareholders of Texwell Global Pte Ltd ("**TWG**"), a non-wholly owned subsidiary of SLG, SLG was granted a call option at nil consideration, being the rights for SLG to acquire the remaining 49% equity interest in TWG at a pre-determined consideration at any time on and from 30 June 2011.

Other non-controlling shareholders of TWG were granted a put option at nil consideration to dispose of their equity interests in TWG to SLG at a pre-determined consideration on and from 30 June 2015.

The fair values of the call and put options were determined on the basis of valuations carried out at 31 December 2016 by independent valuers having an appropriate recognised professional qualification. The valuation was carried out using the Binomial Option Pricing Model for option valuation and with the following assumptions:

	At 31 December 2016
Volatility	65.7%
Weighted average cost of capital	16.1%
Long-term growth	1.0%
Risk free rate	2.5%
Marketability discount	33.0%
Discount rate	5.4%

At 31 December 2016, the fair values of call and put options were determined to be approximately US$1,648,000.

On 2 March 2017, SLG entered into a share purchase agreement to acquire the remaining 49% equity interest in TWG. Pursuant to the share purchase agreement, SLG and non-controlling shareholders of TWG agreed to terminate the joint venture agreement, including the call and put options. The derivative financial asset of US$1,648,000 was derecognised and charged to profit or loss during the year ended 31 December 2017.

21. Bank Balances and Cash

Bank balances carry interest at market rates ranging from 0.001% to 1.76% (2016: 0.001% to 0.3%) per annum.

22. Share Capital

	Number of shares '000	Share capital US$'000
Ordinary shares of HKD0.01 each (2016: US$1) (note i)		
Authorised:		
At 1 January 2016 and 31 December 2016	12	12
Shares repurchased and cancelled	(12)	(12)
Increase of shares pursuant to re-denomination	3,500,000	4,482
At 31 December 2017	3,500,000	4,482
Issued and fully paid:		
At 1 January 2016 and 31 December 2016	12	12
Shares repurchased and cancelled (note i)	(12)	(12)
Issue of shares pursuant to re-denomination (note i)	2,306,880	2,954
Issue of shares on Share Award Scheme B (note ii)	13,062	17
Issue of shares on Global Offering (note iii)	509,300	653
Issue of shares on exercise of over-allotment option (note iv)	23,580	30
At 31 December 2017	2,852,822	3,654

Notes:

(i) *On 11 October 2017, the authorised share capital was increased by HKD35,000,000 divided into 3,500,000,000 shares of par value of HKD0.01 each. On the same day, the Company issued an aggregate of 2,306,880,000 ordinary shares of a par value of HKD0.01 each, credited as fully paid, to the existing shareholders in proportion to their respective shareholdings and immediately following the issue of the ordinary shares, the 12,000 issued ordinary shares of a par value of US$1.00 each held by the then shareholders were repurchased at an aggregate consideration of HKD23,068,800 out of the proceeds of the issue of the ordinary shares and all 12,000 ordinary shares of a par value of US$1.00 each were cancelled immediately upon their repurchase.*

(ii) *On 11 October 2017, 13,062,000 shares of HKD0.01 each were issued to a trustee, for the purpose of the Share Award Scheme B (as defined in note 29). On 3 November 2017, 4,754,000 shares are vested and issued to eligible persons. The remaining 8,308,000 shares held by the trustee are deemed issued as share capital.*

(iii) *The Company's shares were listed on the Stock Exchange on 3 November 2017. The Company allotted and issued a total of 509,300,000 new ordinary shares of HKD0.01 each to the public at a price of HKD7.50 per share pursuant to the Global Offering.*

(iv) *The over-allotment option was exercised on 24 November 2017 for the issue of 23,580,000 shares of the Company of HKD0.01 each at a price of HKD7.50 per share.*

The new shares rank pari passu with the existing shares in all respects.

23. Trade, Bills and Other Payables

	2017 US$'000	2016 US$'000
Trade payables	**142,412**	136,646
Bills payable	**6,899**	1,216
Accrued staff cost	**74,927**	65,123
Other payables	**50,037**	50,451
Other accruals	**55,662**	62,414
Consideration payable on acquisition of subsidiaries (note 30)	**–**	88,903
Total trade, bills and other payables	**329,937**	404,753

The credit period of trade payables is from 14 to 60 days.

The following is an aged analysis of trade payables based on invoice dates.

	2017 US$'000	2016 US$'000
Within 60 days	**139,960**	129,989
61 to 90 days	**1,515**	4,648
91 to 120 days	**467**	616
over 120 days	**470**	1,393
	142,412	136,646

At 31 December 2017, the non-current amounts are related to the purchase of property, plant and equipment and are unsecured, interest-free and repayable from 2019 to 2021 (2016: repayable from 2018 to 2020).

The total is analysed for reporting purposes as:

	2017 US$'000	2016 US$'000
Current	**321,004**	393,773
Non-current	**8,933**	10,980
	329,937	404,753

24. Deferred Taxation

The following are the major deferred tax liabilities (assets) recognised and their movements during the current and prior years:

	Fair value adjustment on business combination US$'000	Accelerated tax depreciation US$'000	Revaluation of properties US$'000	Defined benefit liabilities US$'000	Tax losses US$'000	Total US$'000
At 1 January 2016	–	69	20,292	(1,053)	–	19,308
Exchange realignment	–	1	(904)	194	–	(709)
Credit to other comprehensive income	–	–	(3,581)	(106)	–	(3,687)
Acquisition of subsidiaries (note 30)	12,537	221	1,358	–	–	14,116
Credit to profit or loss	–	–	–	(30)	–	(30)
At 31 December 2016	12,537	291	17,165	(995)	–	28,998
Exchange realignment	–	15	729	(50)	(25)	669
Charge to other comprehensive income	–	–	1,670	1,027	–	2,697
(Credit) charge to profit or loss	(836)	744	29	(26)	(1,021)	(1,110)
At 31 December 2017	11,701	1,050	19,593	(44)	(1,046)	31,254

At 31 December 2017, the Group had unused tax losses of approximately US$40,559,000 (2016: US$36,464,000) available for offset against future profits. A deferred tax asset has been recognised in respect of US$6,239,000 (2016: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining US$34,320,000 (2016: US$36,464,000) due to the unpredictability of future profit streams. Except for unrecognised tax losses of approximately US$4,992,000 (2016: US$13,217,000) that can be used to continuously offset against taxable profits up to 5 years from the year in which the loss is incurred, other losses may be carried forward indefinitely.

25. Retirement Benefit Plans

Defined Contribution Plans

The Group operates a Mandatory Provident Fund Scheme ("**MPF Scheme**") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

The Group also participates in defined contribution retirement schemes organised by the relevant local government authorities in the PRC and other jurisdictions where the Group operates. Certain employees of the Group eligible for participating in the retirement schemes are entitled to retirement benefits from the schemes. The Group is required to make contributions to the retirement schemes up to the time of retirement of the eligible employees, excluding those employees who resign before their retirement, at a percentage that is specified by the local government authorities.

The total expense recognised in profit or loss of approximately US$40,722,000 (2016: US$29,775,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. All contributions due in respect of the years ended 31 December 2017 and 2016 have been paid to the plans.

Defined Benefit Plan

The Group operates a funded defined benefit scheme for qualifying employees of its subsidiaries in the U.K. that has been closed to new members since 1999. Under the scheme, the employees are entitled to retirement benefits as a percentage of final salary on attainment of the retirement age. No other post-retirement benefits are provided.

The plan in the U.K. exposes the Group to actuarially calculated risks, such as investment risk, interest rate risk, inflation risk and longevity risk.

25. Retirement Benefit Plans continued

Defined Benefit Plan continued

Investment risk

The present value of the defined benefit plan liability is measured by discounting the best estimate of future cash flows to be paid out by the plan using the projected unit credit method; if the return on plan assets is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced portfolio in equities, diversified growth funds, debt instruments, liability driven investment funds and a property fund. Due to the long-term nature of the plan liabilities, the trustees of the pension fund consider it appropriate that the plan assets should be invested in the portfolio to leverage the return generated by the fund.

Interest rate risk

A decrease in the interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's corporate bonds and liability driven investment funds.

Inflation risk

The plan allows for rates of inflation experienced in the U.K. to apply to prospective benefits. The amounts of inflation adjustments are calculated in accordance with indices set out in the plan deed.

Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability.

The most recent actuarial valuation of plan assets and the assessment of the present value of the defined benefit obligations were carried out on 31 December 2016 by Jardine Lloyd Thompson Group PLC located at The St Botolph Building, 138 Houndsditch, London and updated on an approximate basis to 31 December 2017. The present value of plan liabilities is measured by discounting the best estimate of future cash flows to be paid out by the plan using the projected unit credit method.

25. Retirement Benefit Plans *continued*

Defined Benefit Plan *continued*

The principal assumptions used for the purposes of the actuarial valuations are as follows:

	2017	2016
Discount rate	**2.4%**	2.6%
Expected return on plan assets:		
– equities and property fund	**6.6%**	7.4%
– bonds and cash	**3.1%**	3.9%
Future pension increases	**3.1%**	3.2%
Inflation rate	**3.2%**	3.3%
Revaluation rate for deferred pensioners	**2.2%**	2.5%

Amounts recognised in profit or loss and other comprehensive income in respect of this defined benefit plan are as follows:

	2017 **US$'000**	2016 US$'000
Net interest expense recognised in profit or loss	**(151)**	(178)
Remeasurement of the net defined benefit liabilities:		
Return on plan assets (excluding amounts included in net interest expense)	**3,194**	5,986
Actuarial losses arising from changes in financial assumptions	**(1,019)**	(8,549)
Actuarial gains arising from experience adjustments	**577**	806
Actuarial gains arising from changes in demographic assumptions	**2,513**	–
Components of defined benefit costs recognised in other comprehensive income	**5,265**	(1,757)
Total	**5,114**	(1,935)

The net interest expense for both years is included in the employee benefits expense in profit or loss.

The adjustment arising from the remeasurement of the net defined benefit liabilities is included in other comprehensive income.

25. Retirement Benefit Plans continued

Defined Benefit Plan continued

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of its defined benefit plan is as follows:

	2017 US$'000	2016 US$'000
Present value of funded defined benefit obligations	46,493	47,012
Fair value of plan assets	(46,228)	(41,153)
Net liability arising from defined benefit obligations	265	5,859

Movements in the present value of the defined benefit obligations in both years were as follows:

	2017 US$'000	2016 US$'000
At beginning of the year	47,012	50,943
Exchange realignment	4,264	(9,242)
Interest cost	1,231	1,612
Benefits paid	(3,943)	(4,044)
Actuarial (gains) losses	(2,071)	7,743
At end of the year	46,493	47,012

Movements in the fair value of the plan assets in both years were as follows:

	2017 US$'000	2016 US$'000
At beginning of the year	41,153	45,091
Exchange realignment	3,972	(8,131)
Interest income	1,080	1,434
Return on plan assets	3,194	5,986
Benefits paid	(3,943)	(4,044)
Contributions from employer	772	817
At end of the year	46,228	41,153

25. Retirement Benefit Plans *continued*

Defined Benefit Plan *continued*

The fair values of the plan assets at the end of the reporting period for each category are as follows:

	2017 US$'000	2016 US$'000
Cash and cash equivalents	105	72
Equity investments	8,353	10,485
Diversified growth funds	15,891	15,237
Liability driven investment funds	13,530	7,670
Debt investments	5,126	5,089
Property fund	3,223	2,600
Total	46,228	41,153

The fair values of the above equity and debt instruments and property fund are determined based on quoted market prices in active markets.

The actual return on plan assets was approximately US$4,274,000 (2016: US$7,420,000).

Significant actuarial assumptions for the determination of the defined obligation are discount rate, inflation and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate decreases by 0.25%, the defined benefit obligation would increase by 4.1% (2016: 4.0%).
- If the discount rate increases by 0.25%, the defined benefit obligation would decrease by 3.8% (2016: 5.0%).
- If the inflation rate increases by 0.25%, the defined benefit obligation would increase by 2.5% (2016: 2.5%).
- If the life expectancy increases by one year for both men and women, the defined benefit obligation would increase by 3.3% (2016: 3.8%).

The sensitivity analyses presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation from one another as some of the assumptions may be correlated.

In presenting the above sensitivity analyses, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is also applied in calculating the defined benefit obligation liability recognised in the consolidated statement of financial position.

The average duration of the defined benefit obligation at 31 December 2017 is 16 years (2016: 16 years).

The contributions expected to be made by the Group to the defined benefit plan during the following 12 months at 31 December 2017 were US$807,000 (2016: US$737,000).

26. Bank Borrowings

	2017 **US$'000**	2016 US$'000
Bank borrowings comprise:		
Bank loans	**411,841**	365,393
Bank import and export loans	**114,458**	106,743
Bank overdrafts	**4,025**	5,422
	530,324	477,558
Analysed as:		
Secured	**3,171**	5,060
Unsecured	**527,153**	472,498
	530,324	477,558
The carrying amounts of loans are repayable:		
Within one year	**9,000**	7,047
More than one year but not more than two years	**9,000**	9,000
More than two years but not more than five years	**14,000**	23,000
	32,000	39,047
The carrying amount of loans that contain a repayable on demand clause are repayable:		
Within one year	**237,055**	177,192
More than one year but not more than two years	**179,267**	96,482
More than two years but not more than five years	**82,002**	164,837
	498,324	438,511
Less: Amounts due within one year shown under current liabilities	**(507,324)**	(445,558)
Amount shown under non-current liabilities	**23,000**	32,000

Some of the banking facilities are subject to the fulfilment of covenants relating to the Group's financial position.

At 31 December 2016, in respect of bank loans with an aggregate carrying amount of approximately US$164,680,000, the Group breached one of the financial covenants contained in the agreement relating to a bank facility. The Group subsequently obtained a waiver from the bank. At 31 December 2017, the Group has not breached any of the financial covenants.

The effective interest rates (which are also equal to contracted interest rates) of the Group's variable-rate borrowings range from 2.64% to 5.25% (2016: 2.20% to 5.25%) per annum.

27. Amount Due From (To) An Associate/Amount Due To Ultimate Holding Company

The amount due from an associate is trade in nature, unsecured, interest-free and repayable on demand.

The amount due to an associate/ultimate holding company was non-trade in nature, unsecured, interest-free and was fully settled during the year ended 31 December 2017.

28. Amounts Due From (To) Related Companies

At 31 December 2017 and 2016, the Group had balances with the following related companies:

	2017 **US$'000**	2016 US$'000
Amounts due from related companies (note i)		
Fellow subsidiaries	**1,011**	–
Companies controlled by certain directors of the Company (note iii)	**217**	–
	1,228	–
Amounts due to related companies (note ii)		
Companies controlled by certain directors of the Company (note iii)	**–**	152

Notes:

(i) Included in the amounts due from related companies, US$705,000 are trade in nature, unsecured, interest-free and repayable on demand. The maximum balances during the current year are US$705,000. The remaining US$523,000 are non-trade in nature, unsecured, interest-free and repayable on demand.

(ii) The amounts are non-trade in nature, unsecured, interest-free and repayable on demand.

(iii) Certain directors of the Company, namely Mr. LO Lok Fung Kenneth, Mrs. LO CHOY Yuk Ching Yvonne and Mr. LO Ching Leung Andrew, have significant influence in these companies.

The amounts due to related companies were fully settled during the year ended 31 December 2017.

29. Share-based Payment Transactions

(1) Share Award Scheme A

The Company's share award scheme ("**Share Award Scheme A**") was adopted pursuant to a resolution passed on 28 December 2016 for the primary purpose of providing incentives to eligible employees of the Group.

On 28 December 2016, 128 shares of the Company (the "**Incentive Shares**"), representing 1.067% of the then issued shares of the Company were transferred from Crystal Group Limited, the ultimate holding company, to eligible employees pursuant to Share Award Scheme A. No consideration was paid by the grantees for the grant of the Incentive Shares. All Incentive Shares vested immediately as there was no vesting requirement under the Share Award Scheme.

The estimated fair value of the Incentive Shares granted on 28 December 2016 amounting to approximately US$9,903,000 has been recognised as a share-based payment expenses during the year ended 31 December 2016.

The fair value was calculated using the income approach by estimating the future economic benefits and discounted to present value using a discount rate of 12% per annum.

(2) Share Award Scheme B

The Company adopted another share award scheme ("**Share Award Scheme B**") pursuant to a written resolution passed in April 2017, which approved the Company appointing an independent professional trustee (the "**Trustee**") to assist with the administration and vesting of the share award. The purpose of Share Award Scheme B is to incentivise the Group's executives, consultants or officers to contribute to the Group, to retain and motivate skilled and experienced personnel and to incentivise them to strive for the future development of the Group by providing them with the opportunity to own equity in the Company.

Share Award Scheme B will be valid and effective for a period of ten years, commencing from the date of the first grant of shares under the scheme. During the year ended 31 December 2017, 13,062,000 shares have been granted to 93 persons who are eligible under Share Award Scheme B. No consideration was paid by the grantees for the grant of incentive shares. When the selected person has fulfilled the condition of service period specified in Share Award Scheme B, the Trustee shall transfer the relevant incentive shares to that eligible person.

Details of specific categories of share awards are as follows:

	Number of shares	Date of grant	Vesting date
First tranche	4,754,000	11 October 2017	3 November 2017
Second tranche	4,154,000	11 October 2017	3 November 2018
Third tranche	4,154,000	11 October 2017	3 November 2019

29. Share-based Payment Transactions continued

(2) Share Award Scheme B continued

The estimated fair values of the share awards granted on 11 October 2017 amounting to approximately US$9,864,000.

The following table discloses movements of the share awards held by employees under Share Award Scheme B during the year:

	Granted during the year	Vested during the year	Outstanding at 31.12.2017
First tranche	4,754,000	(4,754,000)	–
Second tranche	4,154,000	–	4,154,000
Third tranche	4,154,000	–	4,154,000
	13,062,000	(4,754,000)	8,308,000

The fair value of the awarded shares was measured at the estimated market price of the Company's shares, adjusted for the restriction on transfer, disposal and sales for a certain period of time. The inputs used in the fair value measurement were as follows:

	First tranche	Second tranche	Third tranche
Estimated market price	HKD7.89	HKD7.89	HKD7.89
Number of shares	4,754,000	4,154,000	4,154,000
Vesting date	3 November 2017	3 November 2018	3 November 2019
Total restrictive period	3 years	4 years	5 years
Expected volatility	33.8%	33.9%	34.4%
Risk-free rate	1.3%	1.4%	1.5%
Expected dividend yield	1.7%	1.7%	1.7%

The risk-free rate is based on the yield of Hong Kong Government Bonds.

Expected volatility was determined by using average daily volatilities of comparable companies with a tenure commensurate with the restrictive period.

The Group recognised the total expense of US$4,487,000 for the year ended 31 December 2017 relating to the share awards under Share Award Scheme B granted by the Company.

30. Acquisition of Subsidiaries

Acquisition of Vista

Pursuant to the sale and purchase agreement dated 14 November 2016 (as amended by the supplemental agreements dated 21 December 2016) (the "**Agreement**") entered into between Starfar Limited ("**Starfar**"), a wholly owned subsidiary of the Company, and Grand Vista Corp Holdings Limited ("**Grand Vista**"), an independent third party, as the vendor for the acquisition of Vista, the Group acquired the entire share capital of Vista.

On 30 December 2016, the Group acquired 100% of the issued share capital of Vista for a consideration of US$190,080,000 which included US$101,177,000 paid in cash, a balance with a present value of US$83,003,000 to be settled no later than 15 December 2017 and US$5,900,000 upward adjustment on consideration. The upward adjustment of US$5,900,000 is agreed and has been fully settled during the year ended 31 December 2017. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately US$74,941,000. Vista and its subsidiaries are engaged in manufacturing, trading, importing and exporting textiles and apparel. The acquisition was made to continue the expansion of the Group's garments operations.

Acquisition-related costs amounting to approximately US$1,211,000 have been excluded from the consideration transferred and have been recognised as an expense in the year ended 31 December 2016 in the consolidated statement of profit or loss and other comprehensive income.

The fair values of assets acquired and liabilities assumed at the date of acquisition are as follows:

	US$'000
Property, plant and equipment	27,528
Intangible assets - Customer relationship and brand name	105,527
Derivative financial assets	1,648
Prepaid lease payments	1,589
Inventories	16,406
Trade, bills and other receivables	13,673
Bank balances and cash	21,382
Trade, bills and other payables	(14,170)
Bank borrowings	(39,047)
Tax liabilities	(2,610)
Deferred taxation	(14,116)
Non-controlling interests	(2,671)
	115,139

The fair value of trade, bills and other receivables at the date of acquisition amounted to approximately US$13,673,000. The gross contractual amounts of those trade, bills and other receivables acquired amounted to approximately US$15,065,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows expected not to be collected amounted to approximately US$1,392,000.

30. Acquisition of Subsidiaries continued

Acquisition of Vista continued

Goodwill arising on acquisition:

	US$'000
Consideration transferred	190,080
Less: net assets acquired	(115,139)
Goodwill arising on acquisition	74,941

Goodwill arose in the acquisition of Vista because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the workforce of Vista. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow on acquisition of Vista

	US$'000
Cash consideration paid	101,177
Less: cash and cash equivalent balances acquired	(21,382)
	79,795

The accounting for the acquisition of Vista involved identifying and determining the fair value to be assigned to the identifiable assets, liabilities and the cost of the business combination.

The fair values of the property, plant and equipment are determined based on the market comparable approach that reflects recent transaction prices for similar properties valued by independent firms of professional property valuers. The fair values of intangible assets are determined based on the conditions set out in note 15.

No revenue nor profit for the year ended 31 December 2016 was attributed to the additional business generated by Vista.

Had the acquisition been completed on 1 January 2016, the Group's total revenue for the year ended 31 December 2016 would have been approximately US$1,961,977,000, and profit for the year ended 31 December 2016 would have been approximately US$139,694,000. This pro forma information was provided for illustrative purposes only and was not necessarily an indication of the revenue and profits the Group would actually have achieved had the acquisition been completed on 1 January 2016, nor was it intended to be a projection of future results.

30. Acquisition of Subsidiaries continued

Acquisition of Vista continued

In determining the 'proforma' revenue and profit of the Group had Vista been acquired on 1 January 2016, the directors of the Company calculated the amortisation of customer relationship, the depreciation of property, plant and equipment and prepaid lease payment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

31. Disposal of Subsidiaries

Disposal of Sinotex Exports Limited ("SEL") and Sinotex (Mauritius) Limited ("SML")

During the year ended 31 December 2016, the Group entered into a sale and purchase agreement with the ultimate holding company to dispose of certain wholly-owned subsidiaries, SEL and SML, at a consideration of US$12,000. The transaction was completed on 20 September 2016.

	US$'000
Cash consideration received	(12)
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	2,725
Bank balances and cash	31
Amounts due to fellow subsidiaries	(2,738)
Net assets disposed of	18
Loss on disposal	6
Net cash outflow arising on disposal:	
Cash consideration	(12)
Less: bank balances disposed of	31
	19

The losses for the year ended 31 December 2016 from SEL and SML were not material to the Group. Neither SEL nor SML generated revenue for the year ended 31 December 2016.

The directors of the Company considered that disposal of these two subsidiaries was not material to the cash flows of the Group.

32. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to the shareholders through the careful management of the debt to equity ratio. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 26, less bank balances and cash and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a regular basis.

33. Financial Instruments

33a. Categories of Financial Instruments

	2017 **US$'000**	2016 US$'000
Financial assets		
FVTPL		
– Derivative financial assets	**–**	1,648
Loans and receivables (including cash and cash equivalents)	**753,368**	433,898
Financial liabilities		
Financial liabilities at amortised cost	**860,261**	1,003,330

33b. Financial Risk Management Objectives and Policies

The Group's major financial instruments include derivative financial assets, trade, bills and other receivables, amounts due from an associate/related companies, loan receivables, bank balances and cash, trade, bills and other payables, amounts due to ultimate holding company/an associate/related companies and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

33. Financial Instruments *continued*

33b. Financial Risk Management Objectives and Policies *continued*

Market risk

(i) Currency risk

Several entities in the Group have foreign currency sales and purchases, which expose the Group to significant foreign currency risk.

The carrying amounts of the Group's significant foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		**Assets**	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
HKD	**465**	119,661	**19,424**	680
Renminbi ("**RMB**")	**19**	267	**1,289**	1,237

Management of the Group monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

Sensitivity analysis

The Group is mainly exposed to the fluctuations in the HKD and the RMB. The foreign currency risk of the HKD is not significant as the HKD is pegged to the US$.

The following table details the Group's sensitivity to a 5% increase and decrease in the RMB against the US$. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes bank balances, trade, bills and other receivables and trade, bills and other payables in the RMB which is not the functional currency of the relevant group entities. A positive number below indicates an increase in profit where the US$ weakens 5% against the RMB. For a 5% strengthening of the US$ against the RMB, there would be a comparable impact on the Group's post-tax profit and the balances below would be negative.

	2017 US$'000	2016 US$'000
Post-tax profit	**53**	40

33. Financial Instruments continued

33b. Financial Risk Management Objectives and Policies continued

Market risk continued

(ii) Interest rate risk

The Group's cash flow interest rate risks relate primarily to variable-rate bank balances and bank borrowings (see notes 21 and 26 for details of these balances and borrowings). It is the Group's policy to keep its bank balances and borrowings at floating rates of interest so as to minimise the fair value interest rate risk.

The Group's exposure to interest rates on financial liabilities is detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the Hong Kong Interbank Offered Rate, London Interbank Offered Rate and Singapore Interbank Offered Rate arising from the Group's bank borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming these financial instruments outstanding at the end of the respective reporting period were outstanding for the whole year. A 0.5% (2016: 0.5%) increase or decrease in interest rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The exposure to the interest rate risk for variable-rate bank balances is insignificant and therefore the sensitivity analysis is not presented.

If interest rates had been 0.5% (2016: 0.5%) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2017 would decrease/increase by approximately US$2,085,000 (2016: US$1,994,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

Credit risk

At 31 December 2017, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, is the carrying amount of the respective financial assets as stated in the consolidated statement of financial position.

At 31 December 2017, trade receivables from the five largest customers represent approximately 68.5% (2016: 60.6%) of the Group's total trade receivables.

In order to minimise the credit risk, management of the Group has delegated a team responsible for credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are provided for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers that are spread across diverse geographical areas.

33. Financial Instruments continued

33b. Financial Risk Management Objectives and Policies continued

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as significant sources of liquidity, details of which are set out in note 26.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks not choosing to exercise their rights within one year after the reporting date. The maturity analysis for other non-derivative financial liabilities is based on the scheduled repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from the interest rate curve at the end of the reporting period.

2017

	Weighted average effective interest rate %	On demand or less than 1 month US$'000	2 - 3 months US$'000	4 months to 1 year US$'000	Over 1 year US$'000	Total undiscounted cash flows US$'000	Carrying amount at 31.12.2017 US$'000
Non-derivative financial liabilities							
Trade, bills and other payables	–	171,735	103,407	45,862	8,933	329,937	329,937
Bank borrowings - variable rate	3.0	498,324	4,518	4,590	24,994	532,426	530,324
		670,059	107,925	50,452	33,927	862,363	860,261

33. Financial Instruments continued

33b. Financial Risk Management Objectives and Policies continued

Liquidity risk continued

2016

	Weighted average effective interest rate %	On demand or less than 1 month US$'000	2 - 3 months US$'000	4 months to 1 year US$'000	Over 1 year US$'000	Total undiscounted cash flows US$'000	Carrying amount at 31.12.2016 US$'000
Non-derivative financial liabilities							
Trade, bills and other payables	–	170,848	88,082	134,843	10,980	404,753	404,753
Amount due to ultimate holding company	–	118,632	–	–	–	118,632	118,632
Amount due to an associate	–	2,235	–	–	–	2,235	2,235
Amounts due to related companies	–	152	–	–	–	152	152
Bank borrowings - variable rate	2.7	445,557	–	–	34,635	480,192	477,558
		737,424	88,082	134,843	45,615	1,005,964	1,003,330

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. The aggregate undiscounted principal amounts of these bank loans amounted to approximately US$498,324,000 at 31 December 2017 (2016: US$438,510,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below.

	Maturity Analysis-Bank borrowings with a repayment on demand clause based on scheduled repayments						
	On demand or less than 1 month US$'000	1 - 3 months US$'000	3 months to 1 year US$'000	1 - 2 years US$'000	2 - 5 years US$'000	Total undiscounted cash outflow US$'000	Carrying amount US$'000
2017	**12,841**	**62,851**	**165,224**	**187,845**	**91,158**	**519,919**	**498,324**
2016	27,591	112,022	38,597	100,540	181,012	459,762	438,510

The amounts included above for variable interest rate instruments within the non-derivative financial liabilities are subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

33. Financial Instruments continued

33c. Fair Value Measurements of Financial Instruments

This note provides information about how the Group determines fair values of financial assets and financial liabilities.

(i) Fair values of the Group's financial assets (liabilities) that are measured at fair value on a recurring basis.

Some of the Group's financial assets (liabilities) are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used).

	Fair value hierarchy at 31 December 2017		Fair value hierarchy at 31 December 2016		
	Level 2 US$'000	**Total US$'000**	Level 2 US$'000	Total US$'000	Valuation technique and key input
Financial assets (liabilities) at FVTPL					
Call option in investment in a subsidiary					
– derivative financial assets	**–**	**–**	1,648	1,648	note

Note: Binomial Option Pricing Model, key inputs: refer to note 20.

There were no transfers into or out of Level 2 during both years.

(ii) For the fair values of financial assets and financial liabilities that are not measured at fair value on a recurring basis, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

34. Capital Commitments

At the end of the reporting period, the Group had capital commitments as follows:

	2017 US$'000	2016 US$'000
Contracted for but not provided for in the consolidated financial statements in relation to the acquisition of property, plant and equipment	**52,647**	42,994

35. Operating Lease Commitments

	2017 US$'000	2016 US$'000
The Group as lessee		
Lease payments paid under operating leases during the year in respect of:		
Land and buildings	**12,503**	9,864
Plant and machinery	**919**	1,773
	13,422	11,637

At the end of the reporting period, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which would fall due as follows:

	2017 US$'000	2016 US$'000
Land and buildings		
– Within one year	**10,985**	5,553
– In the second to fifth year inclusive	**15,641**	6,407
– Over five years	**3,374**	1,212
	30,000	13,172
Plant and machinery		
– Within one year	**598**	467
– In the second to fifth year inclusive	**820**	190
	1,418	657
	31,418	13,829

Operating lease payments represent rentals payable by the Group for certain of its land and buildings, office properties and machinery. Leases are negotiated for a term of one to ten years and rentals are fixed for a term of one to ten years.

36. Pledge of Assets

At the end of the reporting period, the Group had the following assets pledged to banks as securities for general banking facilities granted to the Group:

	2017 US$'000	2016 US$'000
Property, plant and equipment (note 11)	**12,835**	10,484
Inventories (note 18)	**8,100**	7,646
Trade receivables (note 19)	**31,781**	30,395
	52,716	48,525

37. Related Party Transactions

(a) Related Party Transactions

During the year, the Group entered into transactions with the following related parties:

Relationship	Nature of transaction	2017 US$'000	2016 US$'000
Ultimate holding company	Disposal of subsidiaries	**–**	12
Fellow subsidiaries	Disposal of land and building	**–**	52,826
	Rentals paid	**1,841**	–
	Management fee received	**513**	62
	Subcontracting income	**199**	–
	Equipment leasing expenses	**25**	–
An associate	Purchase of materials	**6,671**	19,903
	Claims received	**589**	–
Companies controlled by certain	Rentals paid	**1,205**	921
directors of the Company (note)	Handling fee received	**20**	128

Note: Certain directors of the Company, namely Mr. LO Lok Fung Kenneth, Mrs. LO CHOY Yuk Ching Yvonne and Mr. LO Ching Leung Andrew, have significant influence in these companies.

37. Related Party Transactions continued

(b) Emoluments of Key Management Personnel

The emoluments of directors, who are also the key management personnel, during the year were as follows:

	2017 US$'000	2016 US$'000
Short-term benefits	6,556	14,313
Post-employment benefits	96	76
	6,652	14,389

The emoluments of directors are recommended to the Board of Directors by the remuneration committee having regard to the performance of each individual and comparable market statistics.

(c) Balances with Related Companies

The Group's outstanding balances with related parties at 31 December 2017 and 2016 are set out in aggregate in the consolidated statement of financial position and the corresponding note thereto.

(d) Commitments with a Fellow Subsidiary and Related Parties

Subsidiaries of the Company entered into several non-cancellable operating lease arrangements as lessees with a fellow subsidiary and companies controlled by certain directors of the Company with lease terms ranging from one to three years. The total amount of rental expenses for the period is included in note 37(a). At 31 December 2017, the Group expects the total rental expenses to the fellow subsidiary and related parties under these non-cancellable operating lease arrangements within one year and in the second to fifth year to be approximately US$3,132,000 and US$2,228,000, respectively.

(e) License Agreement entered into with the Ultimate Holding Company

The Group has entered into a license agreement on 20 March 2017 with the ultimate holding company (the "**License Agreement**"), pursuant to which the ultimate holding company has agreed to grant to the Group a license to use certain trademarks and domain names in connection with the business and operations in various territories and, where applicable, to use and/or to refer to the trademark used on the front and back covers of the prospectus issued by the Company. The Group paid to the ultimate holding company the sum of HKD1.00 as consideration.

38. Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	At 1 January 2017 US$'000	Financing cash flows US$'000	Other changes (note i) US$'000	At 31 December 2017 US$'000
Amount due to ultimate holding company	118,632	(118,632)	–	–
Amounts due to related companies	152	(152)	–	–
Bank borrowings (note ii)	472,136	41,632	12,531	526,299
	590,920	(77,152)	12,531	526,299

Notes:

(i) Other changes include the effect of foreign exchange rate changes and finance cost recognised for bank borrowing.

(ii) Bank borrowings include bank loans, bank import and export loans. The cash flows from bank borrowings comprise the net amount of new bank borrowing raised and repayment of bank borrowings and interest paid.

39. Particulars of the Principal Subsidiaries

The following table lists the principal subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of subsidiary	Place of incorporation/ operation	Issued and paid capital	Proportion of nominal value of issued share/registered capital held by the Company				Principal activities
			2017		2016		
			Directly %	**Indirectly %**	Directly %	Indirectly %	
Crystal Apparel Limited	Hong Kong	HKD2,000,000	**-**	**100**	–	100	Trading of garments
Crystal Industrial Bangladesh Private Limited	Bangladesh	Bangladesh Taka (“**BDT**”) 350,000,000	**-**	**100**	–	100	Manufacture of garments
Crystal Knitters Limited	Hong Kong	HKD7,502,000	**100**	**-**	100	–	Provision of corporate services
Crystal Martin Ceylon (Private) Limited	Sri Lanka	Sri Lanka Rupee (“**LKR**”) 1,792,466,900	**-**	**100**	–	100	Manufacture of garments
Crystal Martin (Cambodia) Limited	Cambodia	US$8,226,000	**-**	**100**	–	100	Manufacture of garments
Crystal Martin (Hong Kong) Limited	Hong Kong	HKD1,970,497	**-**	**100**	–	100	Trading of garments
Crystal Martin International Limited	The U.K.	Great British Pound (“**GBP**”) 100	**-**	**100**	–	100	Trading of garments
Crystal Martin Intimate (Macao Commercial Offshore) Limited	Macau	Macau Pataca (“**MOP**”) 100,000	**-**	**`100**	–	100	Trading of garments
Crystal Sweater Limited	Hong Kong	HKD5,000,000	**-**	**100**	–	100	Trading of garments
Elegance Industrial Company Limited	Hong Kong	HKD1,500,020	**-**	**100**	–	100	Trading of garments
Elegance (Macao Commercial Offshore) Limited	Macau	MOP100,000	**-**	**100**	–	100	Trading of garments
Regent Garment Factory Limited	Vietnam	US$26,000,000	**-**	**100**	–	100	Manufacture of garments
Seiko Sweater (Macao Commercial Offshore) Limited	Macau	MOP100,000	**-**	**100**	–	100	Trading of garments
SL Global Pte. Ltd.	Singapore	Singapore dollars (“**SGD**”) 6,052,605	**-**	**100**	–	100	Trading of garments
東莞晶苑毛織製衣有限公司 *	The PRC	HKD436,320,000	**-**	**100**	–	100	Manufacture of garments

* *Companies are registered in the form of wholly foreign owned enterprises.*

None of the subsidiaries has issued any debt security at the end of the year or at any time during the year.

40. Statement of Financial Position of the Company

	2017 US$'000	2016 US$'000
ASSETS		
Non-current asset		
Investments in subsidiaries	**58,242**	58,242
Current assets		
Other receivables	**40**	2
Amounts due from subsidiaries	**569,341**	217,225
Bank balances and cash	**18,156**	89
	587,537	217,316
Total assets	**645,779**	275,558
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	**3,654**	12
Reserves (note 41)	**637,598**	103,461
Total equity	**641,252**	103,473
Current liabilities		
Other payables	**4,527**	1,024
Amount due to ultimate holding company	**–**	118,632
Amounts due to subsidiaries	**–**	52,429
	4,527	172,085
Total equity and liabilities	**645,779**	275,558

41. Reserves of the Company

	Share premium US$'000	Capital reserve US$'000	Share award reserve US$'000	Retained profits US$'000	Total US$'000
At 1 January 2016	–	–	–	171,126	171,126
Profit and total comprehensive income for the year	–	–	–	271,596	271,596
Recognition of equity-settled share-based payment expense	–	9,903	–	–	9,903
Dividend paid	–	–	–	(349,164)	(349,164)
At 31 December 2016	–	9,903	–	93,558	103,461
Profit and total comprehensive income for the year	–	–	–	101,010	101,010
Shares repurchased and cancelled	–	–	–	12	12
Issue of shares pursuant to re-denomination	–	–	–	(2,954)	(2,954)
Issue of shares on Global Offering, including exercise of over-allotment option (net of listing expenses)	496,111	–	–	–	496,111
Issue of shares in connection with Share Award Scheme B	(17)	–	–	–	(17)
Recognition of equity-settled share-based payment expenses	–	–	4,487	–	4,487
Vesting of shares in connection with Share Award Scheme B	3,714	–	(3,714)	–	–
Dividend paid	–	–	–	(64,512)	(64,512)
At 31 December 2017	499,808	9,903	773	127,114	637,598

Financial Summary

A summary of the results and the assets and liabilities of the Group for the last four financial years, as extracted from the audited consolidated financial statements and the Company's prospectus dated 23 October 2017 is set out below:

Results

	Year ended 31 December			
	2014 US$'000	2015 US$'000	2016 US$'000	**2017** **US$'000**
Revenue	1,700,714	1,688,458	1,763,392	**2,177,994**
Profit before tax	96,969	79,859	144,780	**174,371**
Income tax expenses	(15,166)	(11,574)	(21,128)	**(25,854)**
Profit for the year	81,803	68,285	123,652	**148,517**
Attributable to:				
Owners of the Company	81,803	68,285	123,652	**148,429**
Non-controlling interests	–	–	–	**88**
	81,803	68,285	123,652	**148,517**

Assets and liabilities

	At 31 December			
	2014 US$'000	2015 US$'000	2016 US$'000	**2017** **US$'000**
Total assets	1,232,093	1,073,864	1,360,823	**1,821,725**
Total liabilities	(692,225)	(541,904)	(1,052,594)	**(910,957)**
Total equity	539,868	531,960	308,229	**910,768**
Attributable to:				
Owners of the Company	539,868	531,960	305,558	**910,768**
Non-controlling interests	–	–	2,671	**–**
	539,868	531,960	308,229	**910,768**