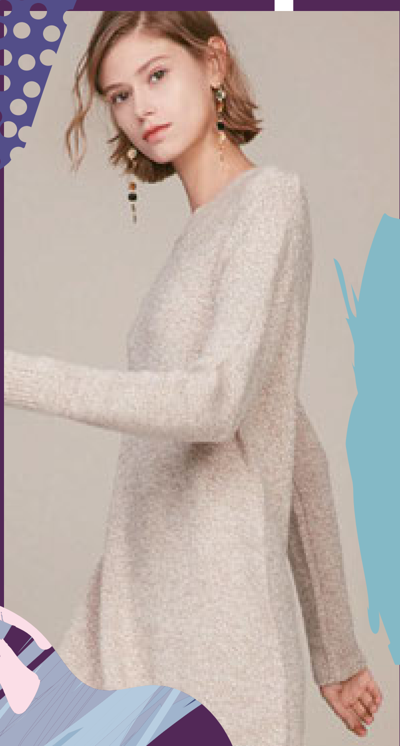
ANNUAL REPORT 2017



High Fashion International Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 608)

CONTENTS

CHAIRMAN'S STATEMENT

In 2017, the global economy has regained momentum and has continued to show synchronized and broad based growth in the beginning of 2018 while international trade conflicts has intensified creating undesirable market uncertainty and volatility. Our results for the year have demonstrated a satisfactory growth in top line sales of our core business manufacturing.

Our fast adaptability to the constant changing market needs and flexible business model helped to deliver a decent set of 2017 annual results, anchoring on our strategized, focused and innovative product development and operational excellence.

Looking ahead, the upswing global economic environment has set a favorable backdrop with momentum for us to push forward our strategic multi development plan in a timely manner. We are convinced of the ample opportunities available from our promising portfolio of quality business we have long established and strategized to ride on the "Internet +", "Belt and Road Initiatives" and "Smart Manufacturing 2025" implemented by the China government. Nevertheless, the recent rise of trade protectionism and political instability will add complexity for industry to monitor closely. The results for the year are as follows:

- Net profit at HK$41.98 million
- Gearing ratio of non-current liabilities to shareholders' fund at 10%. Current ratio at 1.2
- Basic earnings per share landed at HK$0.14
- Net asset value per share amounted to HK$8.25
- Proposed final dividend per share is HK$0.03 and the total dividend for the year will be HK$0.06

We continue to strengthen our engagement with global customers/partners through technological advancement on product innovation, speed to market strategies and digitalization to make our operation even leaner and more agile with inclusive solutions to enhance convenience and enrich our customer centred service proposition that will take our business to the next stage of success.

Contributed by the progressive ramp up of the e-commerce business, positive profitability enhancement continues to be realized in our multi-brand, multi-channel brand business through sharpened operating models with refreshed market positioning; enriched product offer as well as re-engineered cost structure. Full potential of the brand business is yet to be unlocked, to be driven by dedicated strategies & initiatives leveraging the Group's smart technologies, superb product quality & innovation coupled with strong value chain capabilities which can tremendously broaden the customer base of the Group by tapping into a wide population of new customer segments, especially in the Mainland China.

With a quality portfolio of property projects at different stage of investment & development, the property business has started generating sales proceeds in addition to the recurring rental income stream as well as the year-over-year progressive value appreciation.

Chairman's Statement

Strategically located with easy access to other key central business districts, airport and the border to China, the revitalization of the Group's headquarter building in Kwai Chung has started and will be converted to an iconic commercial & retail hub in the region in 2019. Along the attainment of development milestones of each project, the property business will serve as additional growth driver for the Group with continuous enhancement in long-term shareholders' value.

I appreciate very much on the enormous support and advice constantly received from our shareholders, banks, customers, suppliers and our fellow Directors. I would also like to thank the management team and all staff members of our Group for their dedication and contribution.

LAM FOO WAH
Chairman & Managing Director

Hong Kong, 27 March 2018

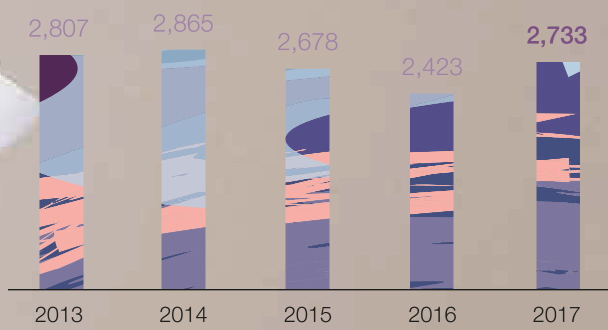
Strive to be World's

No.1 Silk

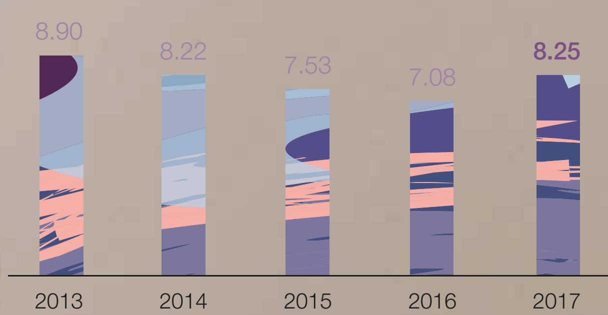
Enterprise

FINANCIAL HIGHLIGHTS

Turnover
(HK$ Million)



Net Asset Value Per Share
(HK$)



MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND REVIEW OF OPERATIONS

Revenue of the Group increased 12.8% to HK$2.7 billion for the year. Despite significant appreciation of CNY over last year eroding our margin, Gross Profit still grew by 10.5% to HK$524.9 million.

Despite escalating operating cost pressure in China, administrative expenses in full year 2017 has been driven down below the level last year contributed by continuous re-engineering of operating process flow and cost base as well as better integration of organisational structure to support both existing businesses and new business development. Overall operating expenses for the year 2017 included also professional & consultancy fees on a number of different projects as well as one-off expenses totaled HK$18.1 million (2016: HK$24.4 million) which is classified under "Other Expenses".

Profit for the year of 2017 included an exceptional loss on fair value change of derivative financial instruments of HK$73.8 million (2016: HK$87.7 million gain). Furthermore, there has been an increase in fair value of investment properties, net of tax, amounted to HK$131.3 million (2016: HK$72.3 million) recorded in the current period.

Net profit attributable to shareholders for the year ended 31 December 2017 landed at HK$42.0 million compared to the profit of HK$43.3 million in 2016. Basic earnings per share were HK$0.14 (2016: HK$0.14). Net asset value per share was HK$8.2 (2016: HK$7.1).

Management Discussion and Analysis

SEGMENT INFORMATION

	Revenue		Contribution	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
By principal activities:				
Manufacturing and trading	**2,492,109**	2,204,317	**124,400**	140,099
Brand business	**175,663**	218,228	**(28,012)**	(36,262)
Property investment and development	**65,202**	–	**24,313**	12,135
	2,732,974	2,422,545	**120,701**	115,972
By geographical segments:				
USA	**951,845**	949,298	**34,768**	37,389
Europe	**485,785**	423,672	**12,358**	12,251
Greater China	**951,314**	784,844	**63,635**	57,524
Others	**344,030**	264,731	**9,940**	8,808
	2,732,974	2,422,545	**120,701**	115,972

The manufacturing and trading business continued to be the profit contributor of the Group and the brand business has kept delivering positive profitability enhancement to the Group in 2017 vs last year through our restructuring efforts while full potential of the brand business is yet to be realized.

Property business continued to grow with increasing bottom-line contribution to the Group. With a quality portfolio of property projects at different stage of investment and development, the property business has started generating sales proceeds in addition to the recurring rental income stream as well as the year-over-year progressive value appreciation.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

The Group's total outstanding bank borrowings were increased to HK$1,388 million at the end of reporting period compared to HK$1,216 million as at 31 December 2016 yet the amount of cash and cash equivalents has also managed to increase for the period. Our gearing ratio of non-current liabilities to shareholders' funds was only 10% at the end of reporting period. Current ratio has been maintained at a healthy level of 1.2.

The Group's total cash and bank balances were HK$993 million at the end of reporting period compared to HK$954 million as at 31 December 2016. Based on the ample banking facilities available, the Group had a strong working capital and liquidity to meet the operating needs and future growth.

The Group's trade receivables were mainly denominated in US dollar. Bank borrowings were denominated in US dollar and Hong Kong dollar. Since the Hong Kong dollar is pegged to the US dollar, the Group considers that its foreign exchange risk in this aspect is minimal. The Group has taken conservative approach to handle foreign currency risk with adequate hedging reserve. The Group had no borrowings at fixed interest rates during the year.

Barring the pledge of trade receivables and bills receivables of certain subsidiaries of HK$19 million, there were no charges on the Group's assets.

Management Discussion and Analysis

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY

As a responsible corporation, the Group is committed to maintaining the highest environmental and social standards to ensure sustainable development of its business. The Group has complied with all relevant laws and regulations in relation to its business, including health and safety, workplace conditions and employment and the environment. The Group understands a better future depends on everyone's participation and contribution. Therefore, the Group encourages employees, customers, suppliers and other stakeholders to participate in environmental and social activities which benefit the community as a whole.

The Group maintains strong relationship with its employees, has enhanced cooperation with its suppliers and has provided high quality products and services to its customers so as to ensure sustainable development.

TAX AUDIT

The Inland Revenue Department (IRD) initiated a tax audit on certain group companies in February 2006 for the years of assessment from 1999/2000 onwards. The management is of the opinion that, in all the years, adequate Hong Kong tax provisions were made on the Hong Kong sourced income. Since the tax audit is still at a fact-finding stage, the outcome of the tax audit cannot be readily ascertained. After consulting with professional advisers, the management is of the opinion that the existing provisions are adequate.

HUMAN RESOURCES

The total number of employees of the Group including joint ventures as at the end of the reporting period was about 6,500. Other than the competitive remuneration package offered to the employees, share options may also be granted to selected employees based on the Group's performance. No share options were granted to employees during the year.

CAPITAL EXPENDITURE

The Group has purchased plant and equipment, leasehold improvement and construction in progress of around HK$25.5 million in order to upgrade its manufacturing capabilities and environmental protection during the year. The Group also input HK$26.4 million for property construction and development projects during the year.

CONTINGENT LIABILITIES

Please refer to note 48 for details of contingent liabilities at 31 December 2017.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. LAM Foo Wah, aged 69, is the founder of the Group. Mr. Lam is the Chairman and the Managing Director and the chairman of the Nomination Committee of the Company. Mr. Lam is the visionary leader and is responsible for the overall strategic planning with goals setting for the Group to pursue aggressively. He has over 30 years of experience in manufacturing of apparel industry and marketing of brand and retail management. Mr. Lam is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance. He is the father of Mr. Lam Gee Yu, Will and Mr. Lam Din Yu, Well.

Ms. SO Siu Hang, Patricia, aged 59, joined the Group in 1990. Ms. So is an Executive Director of the Company and is responsible for the Group's global business development, strategic planning and implementation. She has an in-depth knowledge of the fashion apparel industry, has substantial valuable experience in value chain management and e-commerce sales and marketing. She holds a bachelor degree in commerce and finance from the University of Toronto and a master degree in business administration from York University in Canada. Prior to joining the Group, she worked for Standard Chartered Bank for 4 years.

Mr. LAM Gee Yu, Will, aged 35, joined the Group in 2010. Mr. Will Lam is an Executive Director and a member of the Risk Management Committee of the Company. He serves as a member of The Hong Kong Real Property Federation Limited, a vice president of Shenzhen Garment Industry Association, a member of retail and tourism committee of Hong Kong General Chamber of Commerce, a member of The Chinese Manufacturers' Association of Hong Kong, a member of The Hong Kong Institute of Directors, a member of The Federation of Hong Kong Garment Manufacturers and a member of Hong Kong 3D Printing Association. He holds a Bachelor of Science Degree from The Chinese University of Hong Kong and a Master of Finance Degree from Princeton University. Prior to joining the Group, he worked for an international bank in Asia and an international investment bank in United States. He is a son of Mr. Lam Foo Wah and a brother of Mr. Lam Din Yu, Well.

Mr. LAM Din Yu, Well, aged 33, joined the Group in 2006. Mr. Well Lam is an Executive Director of the Company. He is responsible for the group business in the Mainland China, as well as the new business development area. He is also the principle member of China Silk Association, Zhejiang Silk Association, Zhejiang New High-Tech Enterprises Association, Hangzhou Silk Association, Federation of Industry and Commerce of Xiaoshan Hangzhou, and International Silk Union. He holds a bachelor degree of Business Administration from Boston University. He is a son of Mr. Lam Foo Wah and a brother of Mr. Lam Gee Yu, Will.

Biographical Details of Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Professor YEUNG Kwok Wing, aged 70, joined the Group in 2000. Professor Yeung is a Non-executive Director, a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. He is currently the executive director of Clothing Industry Training Authority ("CITA") in Hong Kong. He holds a PhD from the Queen's University of Belfast, Northern Ireland. Professor Yeung specializes in textile product development, quality assurance and management and serves as various honorary fellows and members of international associations of textile, dyers and colorists as well. He has a long and distinguished academic career and was associated with The Hong Kong Polytechnic University ("PolyU") for more than 30 years before joining CITA in June 2006. His administrative ability is also highly appreciated in PolyU when he was posted as its vice president overseeing academic development from 2002 to 2005.

Mr. HUNG Ka Hai, Clement, aged 62, joined the Group in 2017. Mr. Hung is a Non-executive Director of the Company. He had served Deloitte China for 31 years. He retired from the Chairman role of Deloitte China in June 2016 and had represented Deloitte China in the Deloitte Global Board and Governance Committee as a member during at that time. Mr. Hung assumed various leadership roles in Deloitte, namely he was the Audit group leader and the Office Managing Partner of Deloitte Shenzhen Office and Guangzhou Office. He was also a member of the China Management Team. Later on, Mr. Hung assumed the role of the Southern Audit Leader and the Deputy Managing Partner of the Southern Region. In June 2016, the Ministry of Finance of People's Republic of China appointed Mr. Hung as an expert Consultant under his extensive experience as a Hong Kong accounting professionals.

Mr. Hung is an honorary member of the Shenzhen Institute of Certified Public Accountants in 2004. He served as the Guangzhou Institute of Chartered Accountants consultant from 2009. From 2006 to 2012, he also served as a member of the Political Consultative Committee of Luohu District, Shenzhen. Mr. Hung has been appointed as an independent non-executive director of Gome Finance Technology Co., Ltd., LT Commercial Real Estate Limited, Sheng Ye Capital Limited, Henry Group Holdings Limited, and re-designated as a non-executive director of SMI Holdings Group Limited, shares of these companies are listed on The Stock Exchange of Hong Kong Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WOO King Wai, aged 73, joined the Group in 1992. Mr. Woo is an Independent Non-executive Director, a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. He holds a bachelor degree in architecture (Honours) from the University of the California, Berkeley. He is a member of the Hong Kong Institute of Architects and the Royal Australian Institute of Architects and a member of the University of California Berkeley Foundation Board of Trustees. He served as an executive member of the Hainan Political Consultative Conference, the People's Republic of China.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS (Cont'd)

Mr. WONG Shiu Hoi, Peter, aged 77, joined the Group in 2004. Mr. Wong is an Independent Non-executive Director, the chairman of the Remuneration Committee and Risk Management Committee, and a member of the Audit Committee and Nomination Committee of the Company. He holds a Master of Business Administration Degree from the University of East Asia, Macau (currently known as the "University of Macau"). Mr. Wong possesses over 40 years of experience in the financial services industry. He is a consultant of Halcyon Holdings Limited and an independent non-executive director of Tianjin Development Holdings Limited, Agile Group Holdings Limited and Target Insurance (Holdings) Limited. He was an executive director, deputy chairman and chief executive of Haitong International Securities Group Limited, the chairman of The Hong Kong Institute of Directors, a director of Hong Kong Securities and Investment Institute and an overseas business advisor of Haitong Securities Company Limited.

Mr. LEUNG Hok Lim, *FCPA (Aust.), CPA (Macau), FCPA (Practising)*, aged 82, joined the Group in 2004. Mr. Leung is an Independent Non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee, Nomination Committee and Risk Management Committee of the Company. Mr. Leung is the founding and senior partner of PKF, Accountants and Business Advisers. Mr. Leung is the independent non-executive director of a number of listed companies namely Fujian Holdings Limited, Phoenix Media Investment (Holdings) Limited and S E A Holdings Limited. He was the independent non-executive director of Yangtzekiang Garment Limited and YGM Trading Limited.

SENIOR MANAGEMENT

Ms. LEUNG Suk Yin, Hilda, aged 61, has been with the Group since its inception. She is a director of High Fashion Garments Company Limited and the Vice Chairman of High Fashion (China) Co., Ltd. Ms. Leung holds a diploma in business management from the Hong Kong Polytechnic University and the Hong Kong Management Association. She has over 30 years of experience in the marketing, merchandising and production of garments.

Ms. CHOW Siu Ping, Helen, aged 56, joined the Group in 2000. She is the CEO of Knitwear Centre of High Fashion (China) Co., Ltd. and has extensive experience in the merchandising, product development and production of knitting garments. Before joining the Group, she worked as leading roles for many sizable manufacturing groups and apparel brands.

Mr. POON Yiu Ming, George, aged 45, joined the Group in January 2015. He is a member of the Risk Management Committee of the Company and the Chief Financial Officer of the Group, and is in-charge of the overall finance and accounting strategies and operations as well as investor relations. He has over 21 years of finance, commercial and strategic development experience gained from multinational companies across retail, banking and the technology sectors. He is a member of CPA Australia. He holds a bachelor degree in environmental science from the University of Hong Kong and a master degree in business administration from the Monash University.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT (Cont'd)

Mr. RUAN Gen Yao, aged 57, joined the Group in 2001. He is a director and the General Manager of Zhejiang High Fashion Culture Creativity Co., Ltd. and responsible for the operation of that company. He is a politician engineer in China and Labour Model of Hangzhou and the representation of the People's Congress of Tonglu, China. He has over 20 years' experience in silk finishing and dyeing industry and extensive experience in business management.

Mr. CHAN Chun Man, Benedict, aged 63, joined the Group in 1992. He is the Chief Operating Officer of August Silk Inc. and High Fashion International (USA) Inc. He is responsible for overseeing the Group's affairs in USA. He graduated from the University of Hong Kong with a bachelor degree in economics and pure mathematics. He is a member of The Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants.

Mr. Daniele FURLAN, aged 61, joined the Group in 2004 as a consultant. He is primarily responsible for the sales and marketing of fabrics and garments to European market and provides technical, organizational and industrial know-how to the Group's factories. He holds a diploma in business administration and a master in psychology from Padova University. Previously, he worked as a manager in the Benetton Group for more than 25 years and was responsible for various production units and sourcing divisions. In particular, he was responsible for the worldwide production licensing, fabric mill, garment, accessories and shoes outsourcing department of the Benetton Group. He was the managing director of Lanificio di Follina and also, for seven years, the managing director of Benetton (Far East) Limited in Hong Kong.

Mr. LIN Ping, aged 57, joined the Group in 1993. He is the Chairman and the CEO of High Fashion Silk (Zhejiang) Co., Ltd. and responsible for the operation and administration. He serves as Vice President of Chinese Textile Enterprisers Association, Vice President of China Silk Association, Vice President of China Fashion Color Association, Vice President of Silk Branch of China Textile Chamber of Commerce, Vice President of China Silk Quilt Association, an executive member of China Textile Photography Association, President of Zhejiang Industry Tourism Association, Vice President of Zhejiang Textile Association, Vice President of Zhejiang Province Silk Association, Vice President of Shaoxing Textile Association, Vice President of Shaoxing Tourism Association, Representative of 6th and 7th NPC of Shaoxing, Representative of 13th, 14th and 15th NPC of Xinchang, Creative Consultant of Donghua University, Professor and tutor for master degree of Wuhan Textile University, Part-time Professor of Zhejiang Sci-Tech University and Honorary Professor of Hangzhou Vocational Technical College, President of High Fashion Womenswear College. He attains EMBA education and is the senior economist in China. He has over 30 years' experience in textile industry and extensive experience in product design and development, silk weaving production and management.

Mr. PANG Kin Wah, Julian, aged 45, joined the Group in 2004. He is the Chief Financial Officer of High Fashion (China) Co., Ltd. He is a member of the Hong Kong Institute of Certified Public Accountants and has Certified of Internal Auditors (CIA) professional designation. He holds a bachelor degree of business administration (honours) in accountancy from the Hong Kong Polytechnic University and a master degree in business administration from the Chinese University of Hong Kong. Prior to joining the Group, he worked for a financial institution and an international accounting firm.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT (Cont'd)

Ms. HU Ze Lin, aged 67, joined the Group in 1993. She is a director and the Deputy General Manager of High Fashion Silk (Zhejiang) Co. Ltd. and responsible for the production of that company. She attained matriculated education and is an economist in China. She has over 30 years of experience in textile industry and extensive experience in quality control in silk weaving production management.

Mr. Valentine DUNNE, aged 47, joined the Group in 2002. He is the CEO of High Fashion Garments Inc. and August Silk Inc., and responsible for promotion and development of product in U.S.A. market. He is a graduate of Colaiste Ide Vocational College in accounting program and holds a bachelor degree in aeronautics from Embry-Riddle Aeronautical University. Before joining the Group, he worked for Dillard's Department Stores and Saks Fifth Ave Inc.

Mr. ZHANG Shan Pu, aged 62, joined the Group in 1999. He is the General Manager of Suzhou High Fashion Garments Co., Ltd. and responsible for the operation of that company. He graduated from an institution. Mr. Zhang has over 20 years of experience in silk knitting garments management and extensive experience in business management.

Report of the Directors

The directors present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 49 to the consolidated financial statements. In the current year, property investment and development are considered to be one of the Group's principal activities as the Group has been participating in these activities and expanding to such a level that their revenue and contribution of profit to the Group will be significant.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 is provided in the Chairman's Statement and the Management Discussion and Analysis on pages 2 to 3 and pages 7 to 10 respectively of this Annual Report.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2017 and the financial position of the Group at that date are set out in the consolidated financial statements on pages 43 to 140.

An interim dividend of 3 HK cents per ordinary share was paid on 16 October 2017. The Board recommended the payment of a final dividend of 3 HK cents per ordinary share in respect of the year to shareholders on the register of members on 15 June 2018. Dividend warrants for the final dividend is expected to be despatched on or around 29 June 2018.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements and reclassified as appropriate, is set out on page 141. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 15 and 17 to the consolidated financial statements, respectively.

PROPERTIES

Details of the properties of the Group held for investment and sale purposes at 31 December 2017 are set out in the section headed "Schedule of Principal Properties" on page 142.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, is set out in note 36 to the consolidated financial statements.

Report of the Directors

SHARE OPTION SCHEME

A summary of the share option scheme during the year is set out in note 37 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Other than the share option scheme of the Company as disclosed, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

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

During the year, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution as at 31 December 2017 amounted to HK$111,197,000 (2016: HK$111,194,000).

DONATIONS

During the year, the Group made charitable and other donations of approximately HK$260,000 (2016: HK$27,000).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, less than 29% of the Group's revenue from sales of goods or rendering of services was attributable to the Group's five largest customers, and less than 30% of the Group's total purchases were attributable to the Group's five largest suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Lam Foo Wah
Ms. So Siu Hang, Patricia
Mr. Lam Gee Yu, Will
Mr. Lam Din Yu, Well

Report of the Directors

DIRECTORS (Cont'd)

Non-executive directors:

Professor Yeung Kwok Wing
Mr. Hung Ka Hai, Clement (appointed on 1 December 2017)

Independent non-executive directors:

Mr. Woo King Wai
Mr. Wong Shiu Hoi, Peter
Mr. Leung Hok Lim

In accordance with bye-law 87 of the Company's Bye-laws, Ms. So Siu Hang, Patricia, Professor Yeung Kwok Wing and Mr. Lam Foo Wah will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

At the meeting held on 21 November 2017, the Board approved the appointment of Mr. Hung Ka Hai, Clement as Non-executive Director of the Company with effect from 1 December 2017. In accordance with Bye-law 86(2) of the Company's Bye-Laws, Mr. Hung Ka Hai, Clement will hold office until the forthcoming annual general meeting and being eligible, offer himself for re-election.

INDEPENDENCE CONFIRMATION

Pursuant to the Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on the The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), each independent non-executive director re-affirmed his independent status with the Company as at 31 December 2017, and the Company considered that they are independent.

DIRECTORS' EMOLUMENTS

Particulars as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in note 9 to the consolidated financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 15 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS

No director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the directors of the Company is currently in force and was in force throughout this year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests and short positions of the directors, chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been notified to the Company and the Stock Exchange pursuant to the provision of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) and have been recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which have been notified to the Company and the Stock Exchange pursuant to the model code for securities transactions by directors of listed issuers ("Model Code") contained in the Listing Rules, were as follows:

(i) Long Positions in the Company's Shares

Name of Directors	*Notes*	Capacity	Nature of interests	Number of ordinary shares held	Percentage of the Company's issued share capital *(Note 3)*
Lam Foo Wah		Beneficial owner	Personal	1,789,901	0.59%
	1, 2	Other interest	Other	161,791,327	52.94%
So Siu Hang, Patricia		Beneficial owner	Personal	2,963,207	0.97%

(ii) Long Position in Shares of Associated Corporation

Name of Director	*Note*	Name of associated corporation	Relationship with the Company	Capacity	Number of ordinary shares held	Percentage of the associated corporation's issued share capital
Lam Foo Wah	*4*	High Fashion Knitters Limited	Subsidiary	Interest of controlled corporations	5,339,431	35.60%

Notes:

1. Mr. Lam Foo Wah is deemed to have interests in 120,203,487 ordinary shares which are beneficially owned by Hinton Company Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.

2. Mr. Lam Foo Wah is deemed to have interests in 41,587,840 ordinary shares which are beneficially owned by High Fashion Charitable Foundation Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.

3. The issued share capital of the Company is 305,615,420 shares as at 31 December 2017.

4. These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

Save as disclosed above, as at 31 December 2017, none of the directors, chief executives of the Company nor their associates had or was deemed to have any interest or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which has been notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules.

At no time during the year ended 31 December 2017 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, the following substantial shareholders, other than directors and chief executives of the Company, had the interests and short positions in the shares and underlying shares of the Company which have been disclosed to the Company pursuant to the provision of Divisions 2 and 3 of Part XV of the SFO, have been recorded in the register kept by the Company pursuant to section 336 of SFO:

Long Positions in the Company's Ordinary Shares:

Name of Shareholders	*Notes*	Capacity	Number of ordinary shares held	Percentage of the Company's issued share capital *(Note 3)*
Leung Shuk Bing	*1*	Interest of spouse	163,581,228	53.53%
Hinton Company Limited	*2*	Beneficial owner	120,203,487	39.33%
High Fashion Charitable Foundation Limited	*2*	Beneficial owner	41,587,840	13.61%

Notes:

1. Ms. Leung Shuk Bing is spouse of Mr. Lam Foo Wah and is deemed to have interests in 163,581,228 ordinary shares.

2. Such interests have been disclosed as interests of Mr. Lam Foo Wah in the "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above.

3. The issued share capital of the Company is 305,615,420 shares as at 31 December 2017.

Save as disclosed above, as at 31 December 2017, no person, other than the directors or chief executives of the Company, whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered a long or short position in the shares, underlying shares and debentures of the Company that was required to be recorded pursuant to section 336 of the SFO.

Report of the Directors

RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2017 are disclosed in note 47 to the consolidated financial statements.

MANAGEMENT CONTRACTS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, as at the date of this report, there is a sufficiency of public float of the Company's securities as required under the Listing Rules.

CORPORATE GOVERNANCE

The Company has applied the principles of, and complied with the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the accounting year ended 31 December 2017, except for the deviations as described below:

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Lam Foo Wah is the Chairman and Managing Director of the Company. The Board considers that the function of the Chairman and the Managing Director in the Company's strategic planning and development process are overlapping and it may not be for the benefit of the Company to have separate individuals occupying these two offices in the condition of the Group and its stage of development.

Details of the Company's corporate governance report are set out on pages 23 to 36.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The environmental, social and governance report of the Company prepared in accordance with Appendix 27 to the Listing Rules will be published within three months after the publication of the annual report of the Company.

Report of the Directors

AUDITOR

The consolidated financial statements for the year ended 31 December 2017 were audited by Deloitte Touche Tohmatsu.

A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

LAM FOO WAH
Chairman & Managing Director

Hong Kong, 27 March 2018

Corporate Governance Report

The Board of Directors ("Board") and the management of the Company are committed to establishment and maintaining of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management and enhancing shareholders' value. The corporate governance principles of the Company emphasize a quality Board, sound and effective risk management and internal control systems, and accountability and transparency to all shareholders.

The Company has complied with all the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the accounting year ended 31 December 2017, except for the deviation as described below:

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Lam Foo Wah is the Chairman and Managing Director of the Company. The Board considers that the function of the Chairman and the Managing Director in the Company's strategic planning and development process are overlapping and it may not be for the benefit of the Company to have separate individuals occupying these two offices in the condition of the Group and its stage of development.

THE BOARD

The Board of the Company is collectively responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders' value.

At the year end, the Board of the Company consisted of a total of nine directors, comprising four Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. The names of directors and their positions are as follows:

Name of Director	Position
Executive directors:	
Mr. Lam Foo Wah	Chairman and Managing Director
Ms. So Siu Hang, Patricia	Executive Director
Mr. Lam Gee Yu, Will	Executive Director
Mr. Lam Din Yu, Well	Executive Director
Non-executive directors:	
Professor Yeung Kwok Wing	Non-executive Director
Mr. Hung Ka Hai, Clement	Non-executive Director
Mr. Woo King Wai	Independent Non-executive Director
Mr. Wong Shiu Hoi, Peter	Independent Non-executive Director
Mr. Leung Hok Lim	Independent Non-executive Director

Note: Mr. Hung Ka Hai, Clement was appointed as Non-executive Director with effect from 1 December 2017.

Corporate Governance Report

THE BOARD (Cont'd)

The Directors' biographical information is set out on pages 11 to 15.

An updated list of directors of the Company and their respective roles and functions have been maintained on the website of the Company and the designated website of the Stock Exchange.

Pursuant to Rule 3.10A of the Listing Rules, listed issuers should appoint independent non-executive directors ("INEDs") representing at least one-third of the board. The number of INEDs represents one-third of the Board. One of the three INEDs has appropriate professional qualifications or accounting or related financial management expertise.

Review of the Board composition is made regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

Board Meeting

During the year, four regular Board meetings were held for facilitating the function of the Board. In any event, all Directors were available for consultation by management from time to time.

In order to ensure that the Board is able to fulfill its responsibilities, it has established and delegated specific responsibilities to the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee. Details of the committees are stipulated on pages 27 to 30 of this report.

The Company provides at least 14 days' notices of every Board meeting to all Directors. Board papers are circulated not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings.

During the financial year, the Group Chief Financial Officer and the Company Secretary attended the regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. Directors had full access to information on the Group and were able to seek independent professional advice whenever deemed necessary by the Directors. The Company Secretary prepared minutes and kept records of matters discussed and decisions resolved at all Board meetings.

Corporate Governance Report

THE BOARD (Cont'd)

Directors' attendance records

During the year ended 31 December 2017, details of Directors' attendance at the Board and respective Board Committees Meetings, and the annual general meeting held on 6 June 2017 ("2017 AGM") are as follows:

	Meetings Attended/held					
Name of Directors	Board	Audit Committee *(Note 1)*	Remuneration Committee	Nomination Committee	Risk Management Committee	2017 AGM *(Note 1)*
Executive directors:						
Mr. Lam Foo Wah	4/4	N/A	N/A	1/1	N/A	1/1
Ms. So Siu Hang, Patricia	4/4	N/A	N/A	N/A	N/A	1/1
Mr. Lam Gee Yu, Will	3/4	N/A	N/A	N/A	1/1	1/1
Mr. Lam Din Yu, Well	2/4	N/A	N/A	N/A	N/A	0/1
Non-executive directors:						
Professor Yeung Kwok Wing	4/4	2/2	1/1	1/1	N/A	1/1
Mr. Hung Ka Hai, Clement *(Note 2)*	0/4	N/A	N/A	N/A	N/A	0/1
Independent non-executive directors:						
Mr. Woo King Wai	4/4	2/2	1/1	1/1	N/A	1/1
Mr. Wong Shiu Hoi, Peter	4/4	2/2	1/1	1/1	1/1	1/1
Mr. Leung Hok Lim	4/4	2/2	1/1	1/1	1/1	1/1

Notes:

1. Representatives of the external auditor participated in every Audit Committee meeting and 2017 AGM.

2. Mr. Hung Ka Hai, Clement was appointed as Non-executive Director with effect from 1 December 2017.

Corporate Governance Report

THE BOARD (Cont'd)

Nomination, Appointment and Re-election of Directors

The Company has established the Nomination Committee with specific terms of reference in March 2012 and formal nomination procedures were adopted. Any nomination of directors will be reviewed and discussed by the Nomination Committee for his suitability on the basis of qualifications, experience and background. Suitable candidates will be recommended by the Nomination Committee to the Board for consideration of the appointment.

In accordance with the Company's Bye-Laws, newly appointed director(s) is/are required to retire and can offer themselves for re-election at the first general meeting following their appointment.

At the meeting held on 21 November 2017, the Board approved the appointment of Mr. Hung Ka Hai, Clement as Non-executive Director of the Company with effect from 1 December 2017. In accordance with bye-law 86(2) of the Company's Bye-laws, Mr. Hung Ka Hai, Clement will hold office until the forthcoming annual general meeting to be held on Wednesday, 6 June 2018 ("2018 AGM") and being eligible, offer himself for re-election.

The Company's Bye-Laws provide that every Director shall be subject to retirement by rotation at least once every three years and that one-third (or the number nearest to one-third) of the Directors shall retire from office every year at annual general meeting of the Company. Retiring Directors are eligible for re-election.

In accordance with bye-law 87 of the Company's Bye-laws, Ms. So Siu Hang, Patricia, Professor Yeung Kwok Wing and Mr. Lam Foo Wah will retire by rotation and, being eligible, offer themselves for re-election at the 2018 AGM.

None of the directors who are proposed for re-election at the forthcoming annual general meeting have a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

During the financial year, each of the INEDs has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all INEDs meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the Chairman of the Board ("Chairman") and the Managing Director are held and performed by Mr. Lam Foo Wah, the same individual. The Board considers that the function of the Chairman and the Managing Director in the Company's strategic planning and development process are overlapping, and it may not be for the benefit of the Company to have separate individuals occupying these two offices given the conditions of the Group and its stage of development.

The Board, led by the Chairman, is responsible for the approving and monitoring the Group's overall strategies and policies; evaluating the performance of the Group; and overseeing the of management. One of the important roles of the Chairman is to provide leadership to the Board to ensure that the Board acts in the best interests of the Group. The Chairman ensures that the Board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. All Directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary.

Management is responsible for the day-to-day operations of the Group under the leadership of the Chairman who is also the Managing Director. The Managing Director, working with the other executive directors and the executive management team of each business division, is responsible for managing the businesses of the Group, including implementation of strategies adopted by the Board, and assuming full accountability to the Board for the operations of the Group. All Directors have made full and active contribution to the affairs of the Board and it always acts in the best interests of the Group.

With the support from Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. Apart from the regular Board meetings, the Chairman hold meetings with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors.

BOARD COMMITTEES

The Board delegates its powers and authorities from time to time to committees in order to ensure the operational efficiency and specific issues are being handled by relevant expertise. Four board committees have been established and each of them has its specific duties and authorities setting out in its own terms of reference. Written terms of reference, which are in line with the CG Code, of each of the Audit Committee, the Remuneration Committee and the Nomination Committee are available on the website of the Company and the designated website of the Stock Exchange. The Risk Management Committee was established in 2016.

Audit Committee

During the year, the Audit Committee comprises Mr. Leung Hok Lim (Chairman), Professor Yeung Kwok Wing, Mr. Woo King Wai and Mr. Wong Shiu Hoi, Peter.

The Company has complied with the requirement of the Listing Rules in establishing an audit committee comprising at least three members who must be Non-executive Directors only, and the majority thereof must be Independent Non-executive Directors, at least one of whom must have appropriate professional qualifications or accounting or related financial management expertise. The Audit Committee adopted the terms of reference with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and in accordance with the requirements of the CG Code.

Corporate Governance Report

BOARD COMMITTEES (Cont'd)

Audit Committee (Cont'd)

The main duties of the Audit Committee are set out below:

(i) to recommend to the Board on the appointment, reappointment and removal of the external auditor, and any questions of resignation or dismissal of the auditor;

(ii) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

(iii) to develop and implement policy on the engagement of external auditor to supply non-audit services;

(iv) to monitor integrity of financial statements, annual and interim reports of the Company and accounts, and to review significant financial reporting judgements contained in such reports;

(v) to review the Company's financial controls, internal control and risk management systems; and

(vi) to review the Group's financial and accounting policies and practices.

No member of the Audit Committee is a former partner of the existing auditing firm of the Company during the one year after he/she ceases to be a partner of the auditing firm.

During the year, the Audit Committee held two regular meetings to review and provide supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the Auditor of the Group. The members' attendance to the Committee meeting is listed out on page 25.

The Board adopted the Whistle-Blowing Policy in August 2013 setting out the approach for employees and those who deal with the issuer (eg. Customers and suppliers) to raise concerns, in confidence, with audit committee about possible improprieties in any matter related to the issuer. The Company shall present the quarterly whistle-blowing report to the Audit Committee for review.

In March 2018, the Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2017. Minutes drafted by the secretary of Audit Committee are circulated to members of the Audit Committee within a reasonable time after each meeting.

BOARD COMMITTEES (Cont'd)

Remuneration Committee

During the year, the Remuneration Committee comprises Mr. Wong Shiu Hoi, Peter (Chairman), Professor Yeung Kwok Wing, Mr. Woo King Wai and Mr. Leung Hok Lim.

The Remuneration Committee is mainly responsible for making recommendations to the Board on the Company's policy and structure for remuneration of directors and senior management, and reviewing the specific remuneration packages of all Executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time. The Remuneration Committee makes recommendation to the Board on the remuneration packages of, including benefits in kind, pension rights and compensation payments, of individual executive directors and senior management.

The Remuneration Committee consulted the Chairman about their proposals relating to remuneration package and other human resources issues of the directors and senior management of the Company. The emoluments of directors and senior management are based on the skill, knowledge and involvement in the Company's affairs of each director and senior management and are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

During the year, the Remuneration Committee reviewed the remuneration packages of Executive Directors and made recommendation to the Board for the policy and structure for remuneration of directors and senior management. A regular meeting of Remuneration Committee has been convened in March 2017 and members' attendance to the Remuneration Committee meeting is listed out on page 25.

Particulars of directors' emoluments and employee's emoluments for the year ended 31 December 2017 are set out in note 9 to the consolidated financial statements.

Nomination Committee

During the year, the Nomination Committee comprises Mr. Lam Foo Wah (Chairman), Professor Yeung Kwok Wing, Mr. Woo King Wai, Mr. Wong Shiu Hoi, Peter and Mr. Leung Hok Lim.

The Nomination Committee is mainly responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations to the Board on the appointment or re-appointment of directors. Formal nomination procedures were adopted by the Board for governing the nomination and re-election of directors.

Corporate Governance Report

BOARD COMMITTEES (Cont'd)

Nomination Committee (Cont'd)

The Board adopted the Board Diversity Policy in March 2013 setting out the approach to diversity on the Board. The Board Diversity Policy shall be reviewed by the Nomination Committee, as appropriate, to ensure its effectiveness.

During the year, the Nomination Committee reviewed the structure of the Board, the independence of independent non-executive directors and made recommendations in relation to the re-appointment of the retiring directors. A regular meeting of Nomination Committee has been convened in March 2017 and members' attendance to the Nomination Committee meeting is listed out on page 25.

Risk Management Committee

The Risk Management Committee was established in 2016 and comprises Mr. Wong Shiu Hoi, Peter (Chairman), Mr. Leung Hok Lim, Mr. Lam Gee Yu Will and Mr. Poon Yiu Ming George (Group Chief Financial Officer).

The principal responsibilities of the Risk Management Committee are to review the risks facing the Company and to oversee management in the design, implementation and monitor of the risk management system and the corresponding risk mitigation measures.

A meeting of Risk Management Committee has been convened in March 2017 and members' attendance to the Risk Management Committee meeting is listed out on page 25. Key risk exposures of the Group identified are set out in the Management Discussion and Analysis on pages 7 to 10 of the Annual Report.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties. Specific terms of reference are set out in the Terms of Reference of the Board of the Company and the relevant duties include the following:

1. to develop and review the Company's policies and practices on corporate governance;

2. to review and monitor the training and continuous professional development of directors and senior management;

3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

5. to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

Corporate Governance Report

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions.

Confirmation has been sought from all Directors and they have complied with the required standard set out in the Model Code for the year ended 31 December 2017.

The Company has established the written guidelines on no less exacting terms than the Model Code relating to securities transactions for the relevant employees.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

The directors acknowledge the need to continue to develop and refresh their knowledge and skills for making contributions to the Company. The participation by every existing Director in the continuous professional development programme with appropriate emphasis on the roles, functions and duties of a director of a listed company in 2017 is recorded in the table below.

	Type of Continuous Professional Development	
Name of Directors	Reading regulatory updates or information	Attending seminar(s)/ workshop(s)/ programme(s)
Executive directors:		
Mr. Lam Foo Wah	✓	–
Ms. So Siu Hang, Patricia	✓	–
Mr. Lam Gee Yu, Will	✓	✓
Mr. Lam Din Yu, Well	✓	–
Non-executive directors:		
Professor Yeung Kwok Wing	✓	–
Mr. Hung Ka Hai, Clement	✓	–
Independent non-executive directors:		
Mr. Woo King Wai	✓	–
Mr. Wong Shiu Hoi, Peter	✓	–
Mr. Leung Hok Lim	✓	✓

The Company Secretary updates directors on the latest developments and changes to the Listing Rules and the applicable legal and regulatory requirements regarding subjects necessary in the discharge of their duties.

Corporate Governance Report

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing, with support from the Finance Department, the consolidated financial statements of the Group.

The Directors are responsible for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2017, the Directors believe that they have selected suitable accounting policies and applied them consistently, made judements and estimates that are prudent and reasonable, and ensured the financial statements are prepared on a "going concern" basis.

The final and interim results of the Company are announced in a timely manner within the limits of three months and two months respectively after the end of the relevant year or period.

A statement by the Auditor of the Company about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 37 to 42.

External Auditor

The Group's external auditor is Deloitte Touche Tohmatsu who performs audit and non-audit services for the year ended 31 December 2017. The Group paid or payable to Deloitte Touche Tohmatsu in respect of audit services fee of approximately HK$3,555,000 and non-audit services fee of approximately HK$2,730,000.

Risk Management

The Board has overall responsibility for the system of risk management of the Company and for reviewing its effectiveness. The Board is committed to the management, identification and monitor of risks associated with its business activities and has implemented an effective and sound risk management systems to safeguard the interests of the shareholders and the Group's assets.

Review of the Group's risk management covering major operational, financial and compliance controls of different systems has been done on a systematic and on-going basis based on the risk assessments of the operations and controls. No major issue but areas for improvement have been identified. The Board and the Audit Committee considered that the present internal controls of the Group are reasonably implemented.

In addition, up to the date of approval of the Company's 2017 Annual Report based on the respective assessments made by management and also taking into account the results of the audit conducted by the external auditors, the Audit Committee and the Directors considered that:

(i) the risk management and accounting systems of the Group are designed to provide reasonable but not absolute assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorization and the financial statements are reliable for publication;

(ii) the risk management systems of the Group have been implemented with room for improvement and the group internal audit department has actively conducted follow-up audit for any improvements which were identified; and

(iii) there is an on-going process in place for identifying, evaluating and managing significant risks faced by the Group.

ACCOUNTABILITY AND AUDIT (Cont'd)

Internal Control

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board conducts reviews of the effectiveness of the internal control system for the year ended 31 December 2017 covering all material controls, including financial, operational and compliance controls and risk management functions by considering reviews performed by the Audit Committee, executive management and both group internal audit department and external auditor. The Group's system of internal control comprises a defined management structure with limits of authority, is designed to help the achievement of business objectives, safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations.

The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

The criteria for the Board to assess the effectiveness of the system of internal control are listed below:

(i) **Organisational Structure**
An organisational structure with operating policies and procedures, lines of responsibility and delegated authority has been already established.

(ii) **Authority and Control**
The relevant Executive Directors and senior management are delegated with respective levels of authorities with regard to key corporate strategy and policy and contractual commitments. The Board is responsible for handling and dissemination of price sensitive information through discussion and delegation of authority to the Company Secretary.

(iii) **Budgetary Control and Financial Reporting**
Budgets are prepared annually by the senior management and are subject to review and approval of the Executive Directors prior to being adopted. There are procedures for the appraisal, review and approval of major capital and recurrent expenditure. Results of operations against budgets are reported regularly to the Executive Directors. Proper controls are in place for the recording of complete, accurate and timely accounting and management information. Regular reviews and audits are carried out to ensure that the preparation of consolidated financial statements is carried out in accordance with generally accepted accounting principles, the Group's accounting policies and applicable laws and regulations.

Corporate Governance Report

ACCOUNTABILITY AND AUDIT (Cont'd)

Internal Control (Cont'd)

(iv) Systems and Procedures

Systems and procedures are set to identify, measure, manage and control risks including business, compliance, operational, financial and information services risks that may have an impact on the Group and each principal division. Exposure to these risks is monitored by the Executive Directors and the management of the respective principal divisions.

(v) Internal Audit

The group internal audit department performs independent reviews of the controls and risks identified to provide reasonable assurance to management of the Company and principal divisions and the Audit Committee that controls have been set in place and adequately addressed.

The group internal audit department monitors compliance with policies and procedures as well as the effectiveness of internal control structures across the Company and the Group. To preserve the independence of the group internal audit department, the group internal audit department reports directly to the Audit Committee. The group internal audit department plans its internal audit schedules annually in consultation with, but independent of, management of the Group and the principal divisions. In addition to its agreed annual schedule of work, the group internal audit department conducts other special reviews as required. As a key criterion of assessing the effectiveness of the internal control system, the Board and the Audit Committee actively monitor the number and seriousness of findings raised by the group internal audit department and also the corrective actions taken by relevant departments.

According to the 2017 internal audit reports, the Group's internal control system is functioning effectively and there was no significant weakness found in the course of the audits carried out during the year. The Board, through the Audit Committee and the internal audit function, has reviewed the effectiveness of the Group's internal control system and is of the view that there are no suspected frauds, irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations that cause the Board to believe that the systems are ineffective or inadequate except to the extent of the dispute as referred to note 19 to the financial statements. The Board is satisfied that the Company and the Group have fully complied with the code provisions on internal control as set forth in the CG Code for the year ended 31 December 2017.

COMPANY SECRETARY

The Company Secretary is a full-time employee of the Company and has day-to-day knowledge of the Company's affairs. All Directors have access to the advice and services of the Company Secretary with a view to ensure that Board procedures, and all applicable rules and regulations, are followed. For the year ended 31 December 2017, the Company Secretary has complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training.

Corporate Governance Report

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of communication with our shareholders. In March 2012, the Company adopted a shareholders communication policy to set out the Company's processes to provide shareholders and investment public with equal and timely information on the Company for them to make informed assessments of the Company's strategy, operations and financial performance.

General Meeting

At 2017 AGM held:

(i) A separate resolution was proposed by the Chairman of that meeting in respect of each separate issue, including the re-election of directors.

(ii) The Chairman of the Board, and Chairmen of the Audit Committee, Remuneration Committee and Nomination Committee, or in absence of the chairman of such committees, any member from the respective committees, attended the 2017 AGM to address shareholders queries.

(iii) External auditor attended the 2017 AGM and was available to assist the directors in addressing queries from shareholders relating to the conduct of the audit and the preparation and content of its auditor's report.

(iv) The Chairman demanded poll on all resolutions. Tricor Secretaries Limited, the Company's Hong Kong branch share registrar and transfer office, was engaged as scrutineer to ensure the votes were properly counted.

The 2018 AGM will be held at 22/F., CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong on Wednesday, 6 June 2018 at 10:30 a.m. Notice of the 2018 AGM will be sent to all shareholders at least 20 clear business days before the said meeting.

Voting by Poll

It was properly explained at the commencement of the 2017 AGM the procedures for conducting a poll.

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

Corporate Governance Report

COMMUNICATION WITH SHAREHOLDERS (Cont'd)

Shareholders' Rights

Procedures for shareholders convening meetings

The Company holds a general meeting as its annual general meeting every year. Each general meeting, other than annual general meeting, shall be called a special general meeting ("SGM").

Pursuant to the Company's Bye-Laws, the shareholders of the Company holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board, to require a SGM to be called by the Board for the transaction of any business specified in such requisition. The written requisition must be deposited at 22/F., CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong, the Company's Head Office and Principal Place of Business in Hong Kong, for the attention of the Company Secretary.

Procedures for shareholders putting forward proposals

Pursuant to the Company's Bye-Laws, any shareholder, who wishes to propose a person other than a retiring Director of the Company for election as a Director at a general meeting of the Company. The Company's procedures for shareholders to propose a person for election as a director are available on the Company's website.

Investor Relations

The Company establishes different communication channels with shareholders and investors: (i) shareholders can receive printed copies of corporate information and correspondence; (ii) the general meeting provides a forum for shareholders to raise comments and exchange views with the Board; (iii) the Company's website offers communication channel between the Company and its shareholders and investors; and (iv) the Company's Hong Kong branch share registrar and transfer office serve the shareholders respecting all share registration matters.

Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements, and circulars. Such published documents, together with the latest corporate information are also made available on the Company's website. The corporate information and shareholders & investor relation information is set out on pages 143 and 144 of this annual report.

Independent Auditor's Report

Deloitte. 德勤

TO THE MEMBERS OF HIGH FASHION INTERNATIONAL LIMITED
達利國際集團有限公司
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of High Fashion International Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 43 to 140, 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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Independent Auditor's Report

TO THE MEMBERS OF HIGH FASHION INTERNATIONAL LIMITED (Cont'd)
達利國際集團有限公司
(incorporated in Bermuda with limited liability)

KEY AUDIT MATTERS (Cont'd)

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
We identified valuation of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the judgment and estimate associated with determining the fair value. The Group's investment properties portfolio comprises office and retail properties. The carrying value of the Group's investment properties amounted to approximately HK$1,649,855,000 as at 31 December 2017. The fair value change recognised in profit or loss in respect of these investment properties was approximately HK$170,743,000 for the year ended 31 December 2017. All of the Group's investment properties are measured using the fair value model based on a valuation performed by independent qualified professional valuers (the "Valuers"). As disclosed in note 4 to the consolidated financial statements, in determining the fair value, the Valuers have applied a market value basis that involves, inter-alia, certain estimates, including comparable market transactions, appropriate capitalisation rates and discount rates and reversionary income potential.	Our procedures in relation to valuation of investment properties included: • evaluating the competence, capabilities, and objectivity of the Valuers and obtaining an understanding of the Valuers' scope of work and their terms of engagement; • evaluating the appropriateness of the valuation methodology used and the reasonableness of key assumptions, such as market prices, market rents, capitalisation rates and discount rates, applied in the valuation models based on our knowledge of the real estate industry; and • evaluating the accuracy and relevance of the key data inputs used in the valuation of the Group's investment properties, including market prices, rental income, capitalisation rates and discount rates, on a sample basis, against the appropriate supporting documents.

Independent Auditor's Report

TO THE MEMBERS OF HIGH FASHION INTERNATIONAL LIMITED (Cont'd)
達利國際集團有限公司
(incorporated in Bermuda with limited liability)

KEY AUDIT MATTERS (Cont'd)

Key audit matter	How our audit addressed the key audit matter
Allowance for inventories	
We identified allowance for inventories as a key audit matter due to the use of judgment and estimates by management of the Group in identifying obsolete and slow-moving inventories and estimating the allowance for inventories. As disclosed in note 22 to the consolidated financial statements, the Group had a significant inventories balance of HK$522,524,000 as at 31 December 2017. Obsolete and slow-moving inventories are identified by management of the Group based on aging analysis. Allowance is applied to inventories based on the assessment of net realisable value by management of the Group by considering the latest selling prices and current market conditions.	Our procedures in relation to allowance for inventories included: • assessing the key controls over the identification of obsolete and slow-moving products and management's process in estimation of allowance for inventories; • understanding and evaluating the basis used by management in identifying obsolete and slow-moving inventories, which is by making reference to the inventory aging analysis; • testing the accuracy of inventory aging analysis, on a sample basis, to the underlying procurement correspondences and purchase invoices; • assessing the reasonableness of the allowance for inventories recognised with reference to the latest selling prices and current market conditions of the inventories; and • tracing a selection of inventories with subsequent selling prices to the source documents.

Independent Auditor's Report

TO THE MEMBERS OF HIGH FASHION INTERNATIONAL LIMITED (Cont'd)
達利國際集團有限公司
(incorporated in Bermuda with limited liability)

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 HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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 Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

TO THE MEMBERS OF HIGH FASHION INTERNATIONAL LIMITED (Cont'd)
達利國際集團有限公司
(incorporated in Bermuda with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

As part of an audit in accordance with HKSAs, 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.

Independent Auditor's Report

TO THE MEMBERS OF HIGH FASHION INTERNATIONAL LIMITED (Cont'd)
達利國際集團有限公司
(incorporated in Bermuda with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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 Tsang Yiu Chung.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Revenue	5	**2,732,974**	2,422,545
Cost of sales		**(2,208,070)**	(1,947,474)
Gross profit		**524,904**	475,071
Other income		**34,395**	70,465
Other gains and losses	7	**95,363**	165,803
Administrative expenses		**(323,812)**	(384,815)
Selling and distribution expenses		**(191,475)**	(185,578)
Other expenses		**(18,147)**	(24,355)
Finance costs	8	**(32,100)**	(30,740)
Share of losses of joint ventures	19	**(527)**	(619)
Profit before taxation		**88,601**	85,232
Income tax expenses	10	**(45,926)**	(43,968)
Profit for the year	11	**42,675**	41,264
Other comprehensive income (expense)	12		
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		**211,177**	(168,702)
Gain on revaluation of properties		**101,201**	5,797
Income tax relating to items that will not be reclassified		**(25,300)**	(1,449)
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(2,806)**	3,784
Fair value gain on hedging instruments under cash flow hedges		**34,077**	4,990
Reclassified to profit or loss on realisation of cash flow hedges		**21,782**	63,463
Income tax relating to items that may be reclassified subsequently		**(7,518)**	(8,857)
Other comprehensive income (expense) for the year, net of tax		**332,613**	(100,974)
Total comprehensive income (expense) for the year		**375,288**	(59,710)
Profit (loss) for the year attributable to:			
Owners of the Company		**41,976**	43,277
Non-controlling interests		**699**	(2,013)
		42,675	41,264
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**375,298**	(57,982)
Non-controlling interests		**(10)**	(1,728)
		375,288	(59,710)
Earnings per share	14		
Basic		**HK$0.14**	HK$0.14

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	*15*	**609,975**	638,585
Prepaid lease payments	*16*	**68,717**	105,071
Investment properties	*17*	**1,649,855**	1,188,791
Intangible assets	*18*	**6,529**	–
Interests in joint ventures	*19*	**17,070**	16,246
Available-for-sale investments, at cost		**675**	675
Deposit placed and prepayment of premium for a life insurance	*20*	**26,074**	26,264
Deferred tax assets	*21*	**26,012**	19,989
		2,404,907	1,995,621
Current assets			
Inventories	*22*	**522,524**	416,796
Properties held for sale	*23*	**188,891**	157,192
Trade receivables	*24*	**403,249**	370,466
Bills receivable	*25*	**5,807**	4,961
Prepaid lease payments	*16*	**2,001**	3,026
Deposits, prepayments and other receivables	*26*	**175,968**	150,234
Amounts due from joint ventures	*27*	**27,050**	26,136
Tax recoverable		**175,872**	162,333
Derivative financial instruments	*28*	**–**	64,769
Short-term bank deposits	*29*	**490,131**	623,092
Bank balances and cash	*30*	**503,357**	331,255
		2,494,850	2,310,260
Current liabilities			
Trade payables	*31*	**360,773**	329,595
Bills payable	*31*	**602**	441
Other payables and accruals	*32*	**203,089**	188,394
Amount due to a joint venture	*27*	**–**	867
Amount due to an associate	*33*	**583**	583
Tax payable		**167,239**	157,731
Derivative financial instruments	*28*	**4,485**	63,847
Obligations under finance leases		**75**	62
Bank borrowings	*34*	**1,387,004**	1,215,433
Bank overdrafts	*34*	**694**	1,060
		2,124,544	1,958,013
Net current assets		**370,306**	352,247
Total assets less current liabilities		**2,775,213**	2,347,868

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Deferred tax liabilities	*21*	**251,492**	178,051
Derivative financial instruments	*28*	**734**	3,092
Provision for long service payments	*35*	**2,859**	3,483
Obligations under finance leases		**20**	86
		255,105	184,712
Net assets		**2,520,108**	2,163,156
Capital and reserves			
Share capital	*36*	**30,562**	30,562
Share premium and reserves		**2,514,862**	2,157,900
Equity attributable to owners of the Company		**2,545,424**	2,188,462
Non-controlling interests		**(25,316)**	(25,306)
Total equity		**2,520,108**	2,163,156

The consolidated financial statements on pages 43 to 140 were approved and authorised for issue by the Board of Directors on 27 March 2018 and are signed on its behalf by:

LAM FOO WAH
DIRECTOR

SO SIU HANG, PATRICIA
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Reserve funds HK$'000 *(note i)*	Property revaluation reserve HK$'000 *(note ii)*	Capital redemption reserve HK$'000	Hedging reserve HK$'000 *(note iii)*	Other reserve HK$'000	Accumulated profits HK$'000	Subtotal HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
At 1 January 2016	30,562	287,656	236,107	74,196	112,607	8,511	(107,937)	39,853	1,583,225	2,264,780	(23,578)	2,241,202
Profit (loss) for the year	–	–	–	–	–	–	–	–	43,277	43,277	(2,013)	41,264
Exchange differences arising on translation to presentation currency	–	–	(168,681)	–	–	–	–	–	–	(168,681)	(21)	(168,702)
Gain on revaluation of properties	–	–	–	–	5,797	–	–	–	–	5,797	–	5,797
Income tax relating to items that will not be reclassified	–	–	–	–	(1,449)	–	–	–	–	(1,449)	–	(1,449)
Exchange differences arising on translation of foreign operations	–	–	3,478	–	–	–	–	–	–	3,478	306	3,784
Fair value gain on hedging instruments under cash flow hedges	–	–	–	–	–	–	4,990	–	–	4,990	–	4,990
Reclassified to profit or loss on realisation of cash flow hedges	–	–	–	–	–	–	63,463	–	–	63,463	–	63,463
Income tax relating to items that may be reclassified subsequently	–	–	–	–	–	–	(8,857)	–	–	(8,857)	–	(8,857)
Other comprehensive (expense) income for the year	–	–	(165,203)	–	4,348	–	59,596	–	–	(101,259)	285	(100,974)
Total comprehensive (expense) income for the year	–	–	(165,203)	–	4,348	–	59,596	–	43,277	(57,982)	(1,728)	(59,710)
Deregistration of a subsidiary	–	–	2,833	–	–	–	–	–	(2,833)	–	–	–
Transfer to reserve funds	–	–	–	2,752	–	–	–	–	(2,752)	–	–	–
Dividends declared and paid in cash *(note 13)*	–	–	–	–	–	–	–	–	(18,336)	(18,336)	–	(18,336)
	–	–	2,833	2,752	–	–	–	–	(23,921)	(18,336)	–	(18,336)
At 31 December 2016	30,562	287,656	73,737	76,948	116,955	8,511	(48,341)	39,853	1,602,581	2,188,462	(25,306)	2,163,156

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company										Attributable to non-controlling interests HK$'000	Total HK$'000
	Share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Reserve funds HK$'000 *(note i)*	Property revaluation reserve HK$'000 *(note ii)*	Capital redemption reserve HK$'000	Hedging reserve HK$'000 *(note iii)*	Other reserve HK$'000	Accumulated profits HK$'000	Subtotal HK$'000		
At 1 January 2017	30,562	287,656	73,737	76,948	116,955	8,511	(48,341)	39,853	1,602,581	2,188,462	(25,306)	2,163,156
Profit for the year	-	-	-	-	-	-	-	-	41,976	41,976	699	42,675
Exchange differences arising on translation to presentation currency	-	-	211,150	-	-	-	-	-	-	211,150	27	211,177
Gain on revaluation of properties	-	-	-	-	101,201	-	-	-	-	101,201	-	101,201
Income tax relating to items that will not be reclassified	-	-	-	-	(25,300)	-	-	-	-	(25,300)	-	(25,300)
Exchange differences arising on translation of foreign operations	-	-	(2,070)	-	-	-	-	-	-	(2,070)	(736)	(2,806)
Fair value gain on hedging instruments under cash flow hedges	-	-	-	-	-	-	34,077	-	-	34,077	-	34,077
Reclassified to profit or loss on realisation of cash flow hedges	-	-	-	-	-	-	21,782	-	-	21,782	-	21,782
Income tax relating to items that may be reclassified subsequently	-	-	-	-	-	-	(7,518)	-	-	(7,518)	-	(7,518)
Other comprehensive income (expense) for the year	-	-	209,080	-	75,901	-	48,341	-	-	333,322	(709)	332,613
Total comprehensive income (expense) for the year	-	-	209,080	-	75,901	-	48,341	-	41,976	375,298	(10)	375,288
Transfer to reserve funds	-	-	-	2,225	-	-	-	-	(2,225)	-	-	-
Dividends declared and paid in cash *(note 13)*	-	-	-	-	-	-	-	-	(18,336)	(18,336)	-	(18,336)
	-	-	-	2,225	-	-	-	-	(20,561)	(18,336)	-	(18,336)
At 31 December 2017	30,562	287,656	282,817	79,173	192,856	8,511	-	39,853	1,623,996	2,545,424	(25,316)	2,520,108

Notes:

(i) As stipulated by the relevant People's Republic of China (the "PRC") laws and regulations, before distribution of the profit each year, the subsidiaries established in the PRC with limited liability shall set aside 10% of their net profit to the statutory surplus reserve. The statutory surplus reserve can only be used upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or increase capital.

(ii) Property revaluation reserve represents the revaluation reserve arising upon the transfer of owner-occupied property and prepaid lease payments to investment property, net of deferred tax. The property revaluation reserve will be transferred to accumulated profits when the relevant properties are disposed of.

(iii) Hedging reserve represents cumulative fair value changes of foreign exchange forward contracts and interest rate swaps designated as effective hedging instruments under cash flow hedges.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**88,601**	85,232
Adjustments for:		
Net allowance for inventory obsolescence	**3,707**	8,704
Net allowance for bad and doubtful debts	**3,389**	7,412
Amortisation of prepaid lease payments	**2,442**	3,106
Finance costs	**32,100**	30,740
Share of losses of joint ventures	**527**	619
Interest income	**(19,190)**	(23,715)
Increase in fair value of investment properties	**(170,743)**	(92,540)
Depreciation of property, plant and equipment	**63,335**	63,681
Loss on disposal/written-off of property, plant and equipment and prepaid lease payments	**1,072**	7,623
Realisation of cash flow hedges reclassified from other comprehensive income	**20,399**	61,901
Fair value change in derivative financial instruments	**59,616**	(105,918)
Provision for long service payments	**–**	453
Operating cash flows before movements in working capital	**85,255**	47,298
Increase in inventories	**(87,956)**	(28,147)
Increase in properties held for sale	**(14,261)**	(80,951)
(Increase) decrease in trade receivables	**(32,459)**	28,247
(Increase) decrease in bills receivable	**(846)**	6,505
(Increase) decrease in deposits, prepayments and other receivables	**(18,262)**	11,835
Increase in trade payables	**19,005**	19,194
Increase in bills payable	**161**	441
Increase (decrease) in other payables and accruals	**10,356**	(10,315)
Decrease in amount due to a joint venture	**(867)**	(906)
Long service payments utilised	**(624)**	(259)
Net change in derivative financial instruments	**(22,490)**	(62,754)
(Increase) decrease in discounted bills with recourse	**(156)**	6,102
Net cash used in operations	**(63,144)**	(63,710)
Hong Kong Profits Tax paid	**(16,314)**	(14,740)
Overseas taxes paid	**(4,246)**	(9,818)
NET CASH USED IN OPERATING ACTIVITIES	**(83,704)**	(88,268)

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
INVESTING ACTIVITIES		
New short-term bank deposits placed	**(468,605)**	(641,070)
Withdrawal of short-term bank deposits	**641,070**	197,297
Withdrawal of structured deposits	**–**	520,930
Interests received	**21,862**	34,552
Purchases of property, plant and equipment	**(54,134)**	(40,008)
Proceeds on disposal of property, plant and equipment and prepaid lease payments	**410**	4,335
Additions to investment properties	**(23,570)**	(33,733)
Additions to intangible assets	**(6,529)**	–
Repayment from joint ventures	**671**	299
NET CASH FROM INVESTING ACTIVITIES	**111,175**	42,602
FINANCING ACTIVITIES		
New bank borrowings raised	**1,172,195**	1,287,008
Repayment of bank borrowings	**(1,004,347)**	(1,441,787)
Interests paid	**(29,680)**	(25,218)
Bank charges paid	**(5,767)**	(4,126)
Dividends paid by the Company	**(18,336)**	(18,336)
Repayments of obligations under finance leases	**(66)**	(152)
Interest paid on obligations under finance leases	**(12)**	(15)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**113,987**	(202,626)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**141,458**	(248,292)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**330,195**	610,594
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET	**31,010**	(32,107)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**502,663**	330,195
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**503,357**	331,255
Bank overdrafts	**(694)**	(1,060)
	502,663	330,195

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. GENERAL

High Fashion International Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed on page 143 to the annual report.

At 31 December 2017, Hinton Company Limited and High Fashion Charitable Foundation Limited, companies ultimately owned by Mr. Lam Foo Wah ("Mr. Lam"), the Chairman and Managing Director of the Company, and Mr. Lam, collectively own 53.53% of ordinary shares of the Company and collectively hold the same percentage of the voting rights of the Company. Accordingly, Mr. Lam is considered as the ultimate controlling party of the Company.

The functional currency of the Company is Renminbi ("RMB"), the currency of the primary economic environment in which the Company and its major subsidiaries operates. For the purpose of the preparation of consolidated financial statements and convenience of the financial statements users, the consolidated results and financial position of the Company and its subsidiaries (collectively referred to as the "Group") are presented in Hong Kong dollars ("HK$").

The Company acts as investment holding company. The principal activities of the Group are the manufacture, retailing and trading of garments and property investment and development. In the current year, property investment and development are considered to be one of the Group's principal activities as the Group has been participating in these activities and expanding to such a level that their revenue and contribution of profit to the Group will be significant. Income and expenses from property investment for the year ended 31 December 2016 is not presented separately as such activity is not regarded as the principal activity of the Group during the year ended 31 December 2016.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014 – 2016 cycle

Except as described below, the application of above amendments to HKFRSs in the current year has had no material impact on the Group's performance and financial positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to Hong Kong Accounting Standard ("HKAS") 7 "Disclosure initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 46. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 46, the application of these amendments has had no impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance contracts[3]
HK(IFRIC) – Int 22	Foreign currency transactions and advance consideration[1]
HK(IFRIC) – Int 23	Uncertainty over income tax treatments[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts[1]
Amendments to HKFRS 9	Prepayment features with negative compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[4]
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014 – 2016 cycle[1]
Amendments to HKAS 28	Long-term interests in associates and joint ventures[2]
Amendments to HKAS 40	Transfers of investment property[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 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 1 January 2021.
4 Effective for annual periods beginning on or after a date to be determined.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

New and revised HKFRSs in issue but not yet effective (Cont'd)

HKFRS 9 "Financial instruments"

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

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss;

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. 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;

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

New and revised HKFRSs in issue but not yet effective (Cont'd)

HKFRS 9 "Financial instruments" (Cont'd)

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement:

Equity investments classified as available-for-sale investments carried at cost less impairment are qualified for designation as measured at FVTOCI under HKFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investments revaluation reserve. The investments are not subject to impairment.

Impairment:

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

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 the Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables, amounts due from joint ventures and bank balances. Such further impairment recognised under expected credit loss model would reduce the opening accumulated profits and increase the deferred tax assets at 1 January 2018.

Hedge accounting

As the new hedge accounting requirements will align more closely with the Group's risk management policies, with generally more qualifying hedging instruments and hedged items, an assessment of the Group's current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of HKFRS 9. Accordingly, the directors of the Company anticipate that the application of the new hedging requirements may not have a material impact on the Group's current hedge designation and hedge accounting.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

New and revised HKFRSs in issue but not yet effective (Cont'd)

HKFRS 15 "Revenue from contracts with customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 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 HKFRS 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 HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Currently under HKAS 18, the Group recognises revenue from manufacture, retailing and trading of garments when the garments are delivered and titles have passed, and the significant risks and rewards of ownership of the goods have been transferred to the customers.

Upon application of HKFRS 15, revenue for those manufactured garments with no alternative use to the Group will be recognised over time if the Group has an enforceable right to payment for performance completed to date or otherwise at a point in time upon customers obtain control of the relevant products. With respect to the sale of garments from retailing business, revenue will be recognised when control over these products is transferred to the customers, while rights of return by customers (contractual or otherwise established through customary business practices) are subject to variable consideration constraint.

The directors of the Company have performed an assessment on the potential impact upon application of HKFRS 15, and anticipate that there is no significant impact on the timing and amount of revenue recognised in the respective reporting periods, unless the Group's contracts with customers involve other additional terms and conditions.

However, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

New and revised HKFRSs in issue but not yet effective (Cont'd)

HKFRS 16 "Leases"

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

HKFRS 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 is 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 while operating lease payments are presented as operating cash flows. Upon application of HKFRS 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 by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 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, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

At 31 December 2017, the Group has non-cancellable operating lease commitments of HK$30,777,000 as disclosed in note 43. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

New and revised HKFRSs in issue but not yet effective (Cont'd)

HKFRS 16 "Leases" (Cont'd)

In addition, the Group currently considers refundable rental deposits paid of HK$5,186,000 and refundable rental deposits received of HK$4,182,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 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 are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the initial measurement of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

HK(IFRIC) – Int 23 "Uncertainty over income tax treatments"

HK(IFRIC) – Int 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or collectively; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings. The directors of the Company are in the process to assess the impact of this new interpretation on the consolidated financial statements.

Except as disclosed above, the directors of the Company anticipate that the application of the other new and revised HKFRSs in issue but not yet effective will have no material impact on the results and financial position of the Group in the future.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the 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 fair values at the end of each reporting period, as explained in the accounting policies set out below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

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.

For financial instruments and investment properties which are transferred at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

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:

- 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group 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 Group gains control until the date when the Group 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 in 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.

Interests in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Interests in joint ventures (Cont'd)

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture 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 joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), 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 joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net 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 net 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 HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) 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 HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have joint control over a joint venture, 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 joint venture and the retained interest is a financial asset within the scope of HKAS 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 joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture 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) upon disposal/partial disposal of the relevant joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Interests in joint ventures (Cont'd)

The Group continues to use the equity method when 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 a joint venture 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 a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture 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 other similar allowances.

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 have passed.

Revenue from sale of properties in the ordinary course of business is recognised when the respective properties have been completed and delivered to the buyers. Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

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

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

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 term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Leasehold land and building

When the Group makes payments for a property interest includes both leasehold 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 lease in which case the entire property is accounted for as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold 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 initial recognition.

To the extent the allocation of the relevant 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 term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 exchanges 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 at that date. Non-monetary items carried at fair value that are 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 for 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 in joint ventures.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rate prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of "translation reserve" (attributed to non-controlling interests as appropriate).

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.

Retirement benefit costs

Payments to the Mandatory Provident Fund Schemes and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

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 taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because 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 bases used in the computation of taxable profits. 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 assets and liabilities are not recognised if the temporary difference arises 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

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

For the purposes of measuring deferred taxes for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment

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

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.

Depreciation is recognised so as to write off the cost of assets (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 each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant prepaid lease payments) at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated profits.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes).

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investment properties (Cont'd)

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis the intangible asset that is acquired separately.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment losses on assets

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 relevant asset is estimated in order to determine the extent of the impairment loss (if any). 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.

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 a cash-generating unit) 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. Costs of inventories are determined on a 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Properties held for sale

Completed properties for sale in the ordinary course of business are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to estimated selling price less selling expenses.

Properties which are intended for sale after completion of development within the Group's normal operating cycle are stated at the lower of cost and net realisable value. Cost includes costs of land, development expenditure and other direct costs attributable to such properties. Net realisable value represents the estimated selling price less all anticipated costs of completion of development and costs to incur in marketing and selling the properties.

Financial instruments

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

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 or 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

The Group's financial assets include loans and receivables, financial assets at fair value through profit or loss ("FVTPL") and available-for-sale ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Financial assets at FVTPL

Financial assets are classified as financial assets at FVTPL when it is a derivative that is not designated and effective as a hedging instrument; or it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract to be designated as at FVTPL upon initial recognition.

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 the profit or loss excludes any interest earned on the financial assets and is included in "other gains and losses" line item. Fair value is determined in the manner described in note 39.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including deposit placed for a life insurance, trade and bills receivables, deposits and other receivables, amounts due from joint ventures, short-term bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or not classified as loans and receivables or financial assets at FVTPL. The Group designated certain items of financial assets that are acquired for long term investments as AFS financial assets.

Equity securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated in equity. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in equity is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy on impairment of financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where 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 an AFS equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

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

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, 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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 losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated in equity.

Financial liabilities and equity instruments

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

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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments (Cont'd)

Financial liabilities at FVTPL

Financial liabilities are classified as financial liabilities at FVTPL when it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured 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 excludes any interest paid on the financial liabilities and is included in the "other gains and losses" line item. Fair value is determined in the manner described in note 39.

Financial liabilities at amortised cost

Financial liabilities including trade payables, bills payable, other payables, amounts due to a joint venture and an associate, bank overdrafts and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of a group entity after deducting all of its liabilities.

Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to its fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges, which are hedges of highly probable forecast transactions with external customers for foreign currency risk exposure and interest rate risk exposure associated with the Group's floating rate bank borrowings. For hedges of foreign currency exposure, the hedged item represents highly probable forecast transactions which are denominated in a currency other than the functional currency of respective group entities entering into the transactions and the foreign currency risk under the hedging arrangement will affect the profit or loss. For hedges of interest rate risk, the hedged item is the Group's floating rate bank borrowings and the risk being hedged represents the volatility in interest payments resulted from changes in interest rates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Hedge accounting (Cont'd)

At the inception of the hedging relationship, the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated under the heading of "hedging reserve". The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the "other gains or losses" line item.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item affects in profit or loss, in the same line of the consolidated statement of profit or loss and other comprehensive income as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in 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 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, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liability 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.

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

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred taxes arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted. As a result, the Group has recognised deferred taxes on changes in fair value of investment properties during the year to reflect the tax consequences through consuming the inherent economic benefits through use.

Classification of investment in Longford Information & Technology Co., Limited as joint venture

Note 19 describes that Longford Information & Technology Co., Limited ("Longford") is classified as a joint venture of the Group despite that Longford is 100% owned by High Fashion New Media Corporation Limited ("New Media"), a non-wholly owned subsidiary of the Group.

In making the Judgement, the directors of the Company considered the detailed criteria of control and joint control as set out in HKFRS 10 "Consolidated financial statements" and HKFRS 11 "Joint arrangements". The directors have also taken into consideration of the existing disputes with the legal representative of Longford, Ms. Mary Leong Ma Li ("Ms. Leong"), as well as the High Court decision under which the bank mandate of Longford had to be followed to the effect that one representative of New Media and Ms. Leong shall form joint signatories of the bank account and to operate it jointly. As a result of the High Court order, the directors of the Company concluded that the Group has joint control over Longford as decisions regarding the relevant activities require unanimous consent of both New Media and the legal representative of Longford, Ms. Leong, who is also the non-controlling shareholder of New Media.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Key sources of estimation uncertainty

The followings 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.

Allowance for inventories

Management of the Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete and slow-moving inventory items that are identified not suitable for use in current production. Obsolete and slow-moving inventories were identified by management of the Group based on aging analysis. Allowance is applied to inventories based on the assessment of net realisable value by management of the Group by considering the latest selling prices and current market conditions. At 31 December 2017, the carrying amount of inventories was HK$522,524,000 (2016: HK$416,796,000).

Income taxes

The Hong Kong Inland Revenue Department ("IRD") initiated a tax audit on certain group companies from the year of assessment from 1999/2000 onwards. Since the tax audit is still at a fact-finding stage with different views being exchanged with the IRD, the outcome of the tax audit cannot be readily ascertained with reasonable accuracy. In cases where the tax charged by the IRD is different from the estimated amounts, a material tax charge may arise (see note 10 for details). In the opinion of the directors of the Company, the provision made is adequate.

Allowance for trade receivables

Management of the Group reviews aging analysis, repayment history of its trade receivables and takes into consideration the estimation of future cash flows to determine allowance for trade receivables. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, impairment loss may arise. At 31 December 2017, the carrying amount of trade receivables was HK$403,249,000 (net of allowance for doubtful debts of HK$11,363,000) (2016: carrying amount of trade receivables was HK$370,466,000 (net of allowance for doubtful debts of HK$16,327,000)).

Fair value of investment properties

All of the Group's investment properties are measured using the fair value model based on a valuation performed by independent qualified professional valuers (the "Valuers"). In determining the fair value, the Valuers have applied a market value basis that involves, inter-alia, certain estimates, including comparable market transactions, appropriate capitalisation rates and discount rates and reversionary income potential. In relying on the valuation, management of the Group has exercised Judgement and is satisfied that the valuation method used is reflective of the current market conditions. At 31 December 2017, the carrying amount of investment properties was HK$1,649,855,000 (2016: HK$1,188,791,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

5. REVENUE

An analysis of the Group's revenue is as follows:

	2017 HK$'000	2016 HK$'000
Manufacture and trading of garments	**2,492,109**	2,204,317
Brand business	**175,663**	218,228
Property investment and development *(note)*	**65,202**	–
	2,732,974	2,422,545

Note: Revenue from property investment and development includes proceeds from sale of developed properties and rental income from letting investment properties. Rental income for the year ended 31 December 2016 from property investment, which was not regarded as the Group's principal activity, is not presented but included in other income.

6. SEGMENT INFORMATION

Information reported to the Group's executive directors, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and performance assessment, is analysed based on components of the Group that are regularly reviewed by the CODM. These components are (i) manufacture and trading of garments; (ii) brand business; and (iii) property investment and development. During the year, property investment and development has been reported as separate component due to substantial increase of such activities and revenue contribution to the Group. The comparative segment information has been represented to reflect such change.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

6. SEGMENT INFORMATION (Cont'd)

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

For the year ended 31 December 2017

	Manufacture and trading of garments HK$'000	Brand business HK$'000	Property investment and development HK$'000	Segment total HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE						
External sales	2,492,109	175,663	65,202	2,732,974	–	2,732,974
Inter-segment sales *(note i)*	38,108	–	–	38,108	(38,108)	–
Segment revenue	2,530,217	175,663	65,202	2,771,082	(38,108)	2,732,974
RESULTS						
Segment profit (loss) (excluding loss on cash flow hedges reclassified from other comprehensive income)	52,015	(28,012)	24,313	48,316	–	48,316
Realisation of cash flow hedges reclassified from other comprehensive income	(21,782)	–	–	(21,782)	–	(21,782)
Segment profit (loss)	30,233	(28,012)	24,313	26,534	–	26,534
Change in fair value of derivative financial instruments						(73,809)
Change in fair value of investment properties						170,743
Corporate overhead *(note ii)*						(8,673)
Other expenses						(18,147)
Unallocated items						(8,047)
Profit before taxation						88,601

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

6. SEGMENT INFORMATION (Cont'd)

Segment revenue and results (Cont'd)

For the year ended 31 December 2016 (restated)

	Manufacture and trading of garments HK$'000	Brand business HK$'000	Property investment and development HK$'000	Segment total HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE						
External sales	2,204,317	218,228	–	2,422,545	–	2,422,545
Inter-segment sales *(note i)*	42,256	–	–	42,256	(42,256)	–
Segment revenue	2,246,573	218,228	–	2,464,801	(42,256)	2,422,545
RESULTS						
Segment profit (loss) (excluding loss on flow hedges reclassified from other comprehensive income)	45,941	(36,262)	12,135	21,814	–	21,814
Realisation of cash flow hedges reclassified from other comprehensive income	(63,463)	–	–	(63,463)	–	(63,463)
Segment (loss) profit	(17,522)	(36,262)	12,135	(41,649)	–	(41,649)
Change in fair value of derivative financial instruments						87,728
Change in fair value of investment properties						92,540
Corporate overhead *(note ii)*						(15,315)
Other expenses						(24,355)
Unallocated items						(13,717)
Profit before taxation						85,232

Notes:

(i) Inter-segment sales are charged at agreed terms set out in the subcontracting agreement entered into between group companies.

(ii) Central administration costs are apportioned between segments and corporate and allocated to the respective segments according to segment revenue in the respective reporting periods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

6. SEGMENT INFORMATION (Cont'd)

Segment revenue and results (Cont'd)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit (loss) earned (incurred) by each segment without the allocation of change in fair value of derivative financial instruments not designated for hedge accounting and investment properties, certain portion of the central administration costs and other expenses. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment. Furthermore, as the assets and liabilities for operating segments are not provided to the CODM for the purposes of resources allocation and performance assessment, no segment assets and liabilities is presented accordingly.

Other segment information

For the year ended 31 December 2017

	Manufacture and trading of garments HK$'000	Brand business HK$'000	Property investment and development HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss:				
Depreciation of property, plant and equipment	63,014	321	–	63,335
Amortisation of prepaid lease payments	2,442	–	–	2,442
Loss on disposal/written-off of property, plant and equipment and prepaid lease payments	1,072	–	–	1,072
Net allowance for bad and doubtful debts	3,268	121	–	3,389
Net allowance for (reversal of allowance for) inventory obsolescence *(note)*	6,828	(3,121)	–	3,707
Interest income	18,672	313	205	19,190
Finance costs	32,021	77	2	32,100
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:				
Fair value loss on derivative financial instruments	73,809	–	–	73,809
Increase in fair value of investment properties	–	–	170,743	170,743
Share of losses of joint ventures	527	–	–	527

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

6. SEGMENT INFORMATION (Cont'd)

Other segment information (Cont'd)

For the year ended 31 December 2016 (restated)

	Manufacture and trading of garments HK$'000	Brand business HK$'000	Property investment and development HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss:				
Depreciation of property, plant and equipment	62,833	848	–	63,681
Amortisation of prepaid lease payments	3,106	–	–	3,106
Loss on disposal/written-off of property, plant and equipment and prepaid lease payments	7,497	126	–	7,623
Net allowance for (reversal of allowance for) bad and doubtful debts	11,522	(4,110)	–	7,412
Net allowance for inventory obsolescence	3,709	4,995	–	8,704
Interest income	23,560	140	15	23,715
Finance costs	30,667	70	3	30,740
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:				
Fair value gain on derivative financial instruments	87,728	–	–	87,728
Increase in fair value of investment properties	–	–	92,540	92,540
Share of losses of joint ventures	619	–	–	619

Note: Allowance for obsolete inventory was written back when the relevant inventory was sold.

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6. SEGMENT INFORMATION (Cont'd)

Geographical information

The Group's operations are mainly located in the Greater China.

Information about the Group's revenue from continuing operations from external customers is presented based on the location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue		Non-current assets	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
United States of America ("USA")	**951,845**	949,298	**205**	417
Europe	**485,785**	423,672	**365**	783
Greater China	**951,314**	784,844	**2,330,060**	1,924,708
Others	**344,030**	264,731	**4,446**	6,539
	2,732,974	2,422,545	**2,335,076**	1,932,447

Note: Non-current assets excluded interests in joint ventures, available-for-sale investments, deferred tax assets and deposit placed and prepayment of premium for a life insurance.

Information about major customer

During the year ended 31 December 2017, there is no customer from manufacture and trading of garments segment, brand business nor property investment and development segment which contributed over 10% of the total revenue of the Group.

During the year ended 31 December 2016, there was a customer from manufacture and trading of garments segment contributed over 10% of the total revenue of the Group whose revenue was approximately HK$251,000,000.

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For the year ended 31 December 2017

7. OTHER GAINS AND LOSSES

	2017 HK$'000	2016 HK$'000
Loss on disposal/written-off of property, plant and equipment and prepaid lease payments	**(1,072)**	(7,623)
Net allowance for bad and doubtful debts	**(3,389)**	(7,412)
Change in fair value of derivative financial instruments	**(73,809)**	87,728
Net foreign exchange gain	**2,890**	570
Increase in fair value of investment properties	**170,743**	92,540
	95,363	165,803

8. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interests on:		
Bank borrowings and overdrafts	**29,966**	25,037
Finance leases	**12**	15
Bank charges on discounted bills	**5,767**	4,126
Total borrowing costs	**35,745**	29,178
Less: Amount capitalised in investment properties under construction that is arisen from specific borrowings	**(5,028)**	–
	30,717	29,178
Fair value loss reclassified from other comprehensive income to profit or loss on interest rate swaps designated as cash flow hedges for variable-rate bank borrowings	**1,383**	1,562
	32,100	30,740

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9. DIRECTORS' AND MANAGING DIRECTOR'S EMOLUMENTS AND EMPLOYEE'S EMOLUMENTS

Directors' and Managing Director's emoluments

The emoluments paid or payable to each of the nine (2016: eight) directors, disclosed pursuant to the applicable Listing Rules and Companies Ordinances, are as follows:

		Other emoluments			
	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits schemes contributions HK$'000	Performance related incentive payments HK$'000	Total emoluments HK$'000
2017					
Executive directors					
Lam Foo Wah	200	5,070	–	3,000	8,270
So Siu Hang, Patricia	200	3,300	18	1,400	4,918
Lam Gee Yu, Will	200	3,000	18	1,400	4,618
Lam Din Yu, Well	200	2,700	18	1,400	4,318
Non-executive directors					
Yeung Kwok Wing	200	–	–	–	200
Hung Ka Hai, Clement (appointed on 1 December 2017)	17	–	–	–	17
Independent non-executive directors					
Wong Shui Hoi, Peter	200	–	–	–	200
Leung Hok Lim	200	–	–	–	200
Woo King Wai	200	–	–	–	200
Total for 2017	1,617	14,070	54	7,200	22,941

9. DIRECTORS' AND MANAGING DIRECTOR'S EMOLUMENTS AND EMPLOYEE'S EMOLUMENTS (Cont'd)

Directors' and Managing Director's emoluments (Cont'd)

		Other emoluments			
	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits schemes contributions HK$'000	Performance related incentive payments HK$'000	Total emoluments HK$'000
2016					
Executive directors					
Lam Foo Wah	200	5,070	–	3,000	8,270
So Siu Hang, Patricia	200	3,300	18	1,400	4,918
Lam Gee Yu, Will	200	3,000	18	1,400	4,618
Lam Din Yu, Well	200	2,700	18	1,400	4,318
Non-executive director					
Yeung Kwok Wing	200	–	–	–	200
Independent non-executive directors					
Wong Shui Hoi, Peter	200	–	–	–	200
Leung Hok Lim	200	–	–	–	200
Woo King Wai	200	–	–	–	200
Total for 2016	1,600	14,070	54	7,200	22,924

The executive directors' emoluments, except for their fees, are mainly for their services in connection with the management of the affairs of the Company and the Group, while the emoluments for non-executive directors and independent non-executive directors and the fees for the executive directors are mainly for their services as directors of the Company.

The performance related incentive payment is determined by reference to the individual performance of the directors and approved by the Remuneration Committee.

Mr. Lam Foo Wah is also the Managing Director of the Company and his emoluments disclosed above include those for services rendered by him as the Managing Director.

During both years, no emolument was paid by the Group to the directors as compensation for loss of office or an inducement to join or upon joining the Group. None of the directors has waived any emoluments for both years.

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9. DIRECTORS' AND MANAGING DIRECTOR'S EMOLUMENTS AND EMPLOYEE'S EMOLUMENTS (Cont'd)

Employee's emoluments

Out of the five individuals with the highest emoluments in the Group, four (2016: four) of them are directors whose emoluments are disclosed above. The emoluments of the remaining one individual (2016: one) are as follows:

	2017 HK$'000	2016 HK$'000
Salaries and other benefits	**1,690**	1,690
Retirement benefits schemes contributions	**18**	18
Performance related incentive payments	**1,300**	1,500
	3,008	3,208

The emoluments are within the band HK$3,001,000 to HK$3,500,000.

10. INCOME TAX EXPENSES

	2017 HK$'000	2016 HK$'000
Current tax charge:		
Hong Kong	**1,617**	1,942
PRC	**4,741**	5,502
Other jurisdictions	**568**	68
	6,926	7,512
Underprovision in prior years:		
Hong Kong	**7,908**	–
PRC	**1,177**	6,919
	9,085	6,919
Deferred taxation *(note 21):*		
Current year	**27,222**	21,366
Reclassification from other comprehensive income	**2,693**	8,171
	29,915	29,537
	45,926	43,968

10. INCOME TAX EXPENSES (Cont'd)

The IRD has initiated a tax audit on certain group companies for the year of assessment from 1999/2000 onwards in relation to the taxability on certain offshore income. As a matter of IRD's practice, the IRD has issued estimated/additional assessments ("Assessments") demanding for tax to the relevant group companies for the years of assessment from 1999/2000 to 2010/2011. During the course of the tax audit, there is a possibility that estimated additional assessments for subsequent years will be issued by the IRD to these group companies.

Up to 31 December 2017, the Group has made tax payment of approximately HK$172,384,000 (2016: HK$160,294,000) for conditional standover order of objection against the Assessments, including approximately HK$160,294,000 (2016: HK$160,294,000) tax reserve certificates purchased by the Group. The amount is included in "tax recoverable" in the consolidated statement of financial position.

Since the tax audit is still at a fact-finding stage with different views being exchanged with the IRD, the outcome of the tax audit cannot be readily ascertained with reasonable accuracy. Management of the Group has in the current year followed the same basis for making provision as adopted in prior years. In the opinion of the directors of the Company, the provision made is adequate for the purpose mentioned above.

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards, except for High Fashion Silk (Zhejiang) Co., Ltd. and High Fashion (China) Co., Ltd, which have been recognised as an advanced technology enterprise by the PRC Tax Bureau in 2015 and 2014, respectively. These entities are subject to an income tax rate of 15% for three years starting from the year being recognised as an advanced technology enterprise.

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

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10. INCOME TAX EXPENSES (Cont'd)

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

	2017 HK$'000	2016 HK$'000
Profit before taxation	**88,601**	85,232
Tax at the income tax rate of 16.5% (2016: 16.5%)	**14,619**	14,063
Effect of different tax rates of subsidiaries operating in other jurisdictions	**9,198**	6,276
Tax effect of share of results of joint ventures	**87**	102
Tax effect of income not taxable for tax purpose	**(2,691)**	(2,002)
Tax effect of expenses not deductible for tax purpose	**11,513**	16,321
Tax effect of deductible temporary differences not recognised	**12,451**	12,945
Utilisation of deductible temporary differences previously not recognised	**(4,197)**	(6,433)
Underprovision in prior years	**9,085**	6,919
Tax relief in relation to additional tax deductions on research and development costs incurred and amount spent on acquisition of plant and equipment made in the PRC	**(6,519)**	(6,337)
Others	**2,380**	2,114
Income tax expenses	**45,926**	43,968

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11. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

	2017 HK$'000	2016 HK$'000
Costs of inventories recognised as expenses (including net allowance for inventory obsolescence) *(note i)*	**2,095,145**	1,870,661
Research and development costs recognised as expenses	**79,022**	76,813
Cost of properties sold (included in cost of sales)	**26,606**	–
Amortisation of prepaid lease payments	**2,442**	3,106
Depreciation of property, plant and equipment	**63,335**	63,681
Auditor's remuneration	**4,817**	4,906
Minimum lease payments in respect of land and buildings	**20,057**	21,287
Contingent rental expense *(note ii)*	**591**	650
Staff costs (including directors' emoluments)		
Wages, salaries and bonuses	**541,573**	546,420
Retirement benefits schemes contributions	**58,109**	60,935
Less: Amount capitalised in investment properties under construction, construction in progress, intangible assets and inventories	**(304,710)**	(270,520)
	294,972	336,835
Realisation of cash flow hedges reclassified from other comprehensive income (included in revenue)	**20,399**	61,901
Realisation of cash flow hedges reclassified from other comprehensive income (included in finance costs)	**1,383**	1,562
Gross rental income from investment properties	**(28,452)**	(29,439)
Less: Outgoings for investment properties rented out	**7,297**	5,985
Net rental income	**(21,155)**	(23,454)
Government grants (included in other income) *(note iii)*	**(10,043)**	(10,013)
Interest income earned on loans and receivables (included in other income)		
– bank interest income	**(18,325)**	(14,172)
– interest income on other receivables	**(865)**	(828)
	(19,190)	(15,000)
Interest income earned on financial assets at FVTPL (included in other income)		
– interest income from structured deposits	**–**	(8,715)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

11. PROFIT FOR THE YEAR (Cont'd)

Notes:

(i) The amount includes net allowance for inventory obsolescence of HK$3,707,000 (2016: HK$8,704,000).

(ii) Contingent rental expenses are determined based on a certain percentage of the gross sales of the relevant shops when the sales meet certain specified level.

(iii) The amounts represent subsidies received from the PRC government for the purpose of encouraging the Group to expand its business in the PRC. There is no conditions attached to the subsidies granted to the Group and the grants are not related to capital expenditures.

12. OTHER COMPREHENSIVE INCOME (EXPENSE)

	2017 HK$'000	2016 HK$'000
Cash flow hedges:		
Fair value gain on hedging instruments	**34,077**	4,990
Reclassification adjustments upon realisation of hedged items in profit or loss	**21,782**	63,463
	55,859	68,453
Gain on revaluation of properties	**101,201**	5,797
Exchange differences arising on translation to presentation currency	**211,177**	(168,702)
Exchange differences arising on translation of foreign operations	**(2,806)**	3,784
Other comprehensive income (expense)	**365,431**	(90,668)
Income tax relating to components of other comprehensive expense:		
Fair value gain on hedging instruments under cash flow hedges	**(4,825)**	(686)
Reclassification adjustments of fair value change in hedging instruments to profit or loss	**(2,693)**	(8,171)
Revaluation of properties	**(25,300)**	(1,449)
	(32,818)	(10,306)
Other comprehensive income (expense) for the year, net of tax	**332,613**	(100,974)

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13. DIVIDENDS

	2017 HK$'000	2016 HK$'000
Dividends recognised as distribution and paid during the year:		
Interim dividend – 3 HK cents per ordinary share for 2017 (2016: 3 HK cents for 2016)	**9,168**	9,168
Final dividend – 3 HK cents per ordinary share for 2016 (2016: 3 HK cents for 2015)	**9,168**	9,168
	18,336	18,336

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2017 of 3 HK cents (2016: final dividend in respect of the year ended 31 December 2016 of 3 HK cents) per ordinary share, in an aggregate amount of HK$9,168,000 (2016: HK$9,168,000) has been proposed by the directors of the Company and is subject to the approval by the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE

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

	2017 HK$'000	2016 HK$'000
Earnings for the purpose of basic earnings per share attributable to owners of the Company	**41,976**	43,277

	2017	2016
Number of ordinary shares for the purpose of basic earnings per share	**305,615,420**	305,615,420

No diluted earnings per share is presented as there is no potential ordinary shares outstanding during both years or at the end of the respective reporting periods.

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15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land (in Hong Kong)	Buildings (in Hong Kong)	Buildings (outside Hong Kong)	Construction in progress	Leasehold improvements	Plant and equipment	Furniture and fixtures	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST									
At 1 January 2016	5,058	13,886	601,455	13,904	138,769	570,366	193,232	31,474	1,568,144
Additions	–	–	197	14,333	1,430	9,694	5,072	5,766	36,492
Transfers	–	–	426	(9,382)	1,249	7,707	–	–	–
Transfers to investment properties	–	–	(14,615)	–	–	–	–	–	(14,615)
Disposals/written-off	–	–	(29,214)	–	(25,225)	(8,110)	(1,316)	(1,696)	(65,561)
Exchange realignment	–	–	(36,409)	(888)	(7,531)	(31,381)	(10,632)	(1,382)	(88,223)
At 31 December 2016	5,058	13,886	521,840	17,967	108,692	548,276	186,356	34,162	1,436,237
Additions	**–**	**–**	**1,375**	**29,815**	**4,628**	**12,560**	**5,015**	**79**	**53,472**
Transfers	**–**	**–**	**–**	**(11,580)**	**2,432**	**7,478**	**1,670**	**–**	**–**
Transfers to investment properties	**–**	**–**	**(77,521)**	**–**	**–**	**–**	**–**	**–**	**(77,521)**
Disposals/written-off	**–**	**–**	**–**	**–**	**(2,340)**	**(39,213)**	**(33,695)**	**(1,596)**	**(76,844)**
Exchange realignment	**–**	**–**	**41,368**	**1,301**	**7,223**	**38,893**	**12,460**	**1,604**	**102,849**
At 31 December 2017	**5,058**	**13,886**	**487,062**	**37,503**	**120,635**	**567,994**	**171,806**	**34,249**	**1,438,193**
ACCUMULATED DEPRECIATION AND IMPAIRMENT									
At 1 January 2016	1,699	5,622	134,463	24	115,581	404,502	151,335	22,589	835,815
Provided for the year	105	278	14,670	–	8,595	28,029	8,512	3,492	63,681
Transfers to investment properties	–	–	(2,702)	–	–	–	–	–	(2,702)
Eliminated on disposals/ written-off	–	–	(20,959)	–	(25,225)	(4,802)	(1,187)	(1,489)	(53,662)
Exchange realignment	–	–	(9,945)	(24)	(4,500)	(22,090)	(7,953)	(968)	(45,480)
At 31 December 2016	1,804	5,900	115,527	–	94,451	405,639	150,707	23,624	797,652
Provided for the year	**104**	**278**	**13,445**	**–**	**9,582**	**31,095**	**5,379**	**3,452**	**63,335**
Transfers to investment properties	**–**	**–**	**(15,163)**	**–**	**–**	**–**	**–**	**–**	**(15,163)**
Eliminated on disposals/ written-off	**–**	**–**	**–**	**–**	**(2,340)**	**(38,685)**	**(32,786)**	**(1,551)**	**(75,362)**
Exchange realignment	**–**	**–**	**11,179**	**–**	**6,527**	**28,926**	**9,820**	**1,304**	**57,756**
At 31 December 2017	**1,908**	**6,178**	**124,988**	**–**	**108,220**	**426,975**	**133,120**	**26,829**	**828,218**
CARRYING VALUES									
At 31 December 2017	**3,150**	**7,708**	**362,074**	**37,503**	**12,415**	**141,019**	**38,686**	**7,420**	**609,975**
At 31 December 2016	3,254	7,986	406,313	17,967	14,241	142,637	35,649	10,538	638,585

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15. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis at the following rates per annum:

Land and buildings	2% to 5% or over remaining lease term if shorter
Leasehold improvements	The shorter of lease terms and 5 years
Plant and equipment	9% to 20%
Furniture and fixtures	9% to 25%
Motor vehicles	15% to 25%

The carrying value of the motor vehicles includes an amount of HK$226,000 (2016: HK$283,000) in respect of assets held under finance leases. During the year ended 31 December 2016, the Group entered into a finance lease arrangement in respect of these motor vehicles with carrying amount of HK$266,000 at the inception of lease.

16. PREPAID LEASE PAYMENTS

	2017 HK$'000	2016 HK$'000
Analysed for reporting purposes as:		
Non-current assets	**68,717**	105,071
Current assets	**2,001**	3,026
	70,718	108,097

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17. INVESTMENT PROPERTIES

	Completed investment properties HK$'000	Investment properties held for development/ under construction HK$'000	Total HK$'000
FAIR VALUE			
At 1 January 2016	933,863	154,891	1,088,754
Additions	2,911	30,822	33,733
Transfer from property, plant and equipment and prepaid lease payments	18,033	–	18,033
Transfer upon completion of development	59,227	(59,227)	–
Disposals	–	(8,372)	(8,372)
Increase in fair value recognised in profit or loss (included in other gains and losses) – unrealised	86,122	6,418	92,540
Exchange realignment	(27,566)	(8,331)	(35,897)
At 31 December 2016	1,072,590	116,201	1,188,791
Additions	**3,117**	**23,329**	**26,446**
Transfer from property, plant and equipment and prepaid lease payments	**133,521**	**73,448**	**206,969**
Increase in fair value recognised in profit or loss (included in other gains and losses) – unrealised	**100,700**	**70,043**	**170,743**
Exchange realignment	**40,891**	**16,015**	**56,906**
At 31 December 2017	**1,350,819**	**299,036**	**1,649,855**

All of the Group's completed investment properties are held under operating leases to earn rentals or for capital appreciation purposes. They are measured using the fair value model and are classified and accounted for as investment properties.

During the year ended 31 December 2017, certain property, plant and equipment and prepaid lease payments located in the PRC with carrying amounts of HK$62,358,000 (2016: HK$11,913,000) and HK$43,410,000 (2016: HK$323,000), respectively, were transferred to investment properties. Valuation which was made by Centaline Surveyors Limited, independent qualified professional valuers not connected with the Group, at the date of transfer was approximately HK$206,969,000 (2016: HK$18,033,000). The difference between the carrying amount and the fair value of these properties was credited to "property revaluation reserve".

17. INVESTMENT PROPERTIES (Cont'd)

The fair value of the Group's investment properties at 31 December 2017 have been arrived at on the basis of a valuation carried out by Centaline Surveyors Limited and 新昌信安達資產評估有限公司, independent qualified professional valuers not connected with the Group. Centaline Surveyors Limited are members of the Institute of Valuers, while 新昌信安達資產評估有限公司 are certified public valuers in the PRC.

For the completed investment properties, the valuations were arrived at by making reference to market evidence of transaction prices for similar properties in similar locations and conditions or on the basis of capitalisation of net income with due allowance for the reversionary income and redevelopment potential. The net income is the market rentals of all lettable units of the properties and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by making reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by making reference to the yields derived from analysing the sales transactions of similar properties in the relevant locations and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties.

For the investment properties held for development, for which management of the Group has yet to complete and obtain approval for building development plan, valuation was arrived at by making reference to comparable market sale and purchase transactions of vacant land.

There has been no change to the valuation techniques used in the prior year.

In estimating the fair value of the completed properties, the highest and best use of the properties is their current use. In estimating the fair value of investment properties held for development, management of the Group has taken into account the highest and best use of the properties from the perspective of market participants, taking into account the future development potential of the properties.

The Group's investment properties are categorised into level 3 of the fair value hierarchy. At the end of each reporting period, the chief financial officer ("CFO") works closely with the independent qualified professional valuers to establish and determine the appropriate valuation techniques and inputs to be used in determining the fair value of the investment properties. Discussions on valuation processes and results are held between CFO and the directors of the Company at least twice a year.

There is no transfer into or out of level 3 for both years.

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17. INVESTMENT PROPERTIES (Cont'd)

The following table shows the valuation techniques used in the determination of the fair values of investment properties and unobservable inputs used in the valuation models:

Description	Fair value as at		Valuation techniques	Unobservable inputs	Significant inputs	Relationship of inputs to fair value
	2017 HK$'000	2016 HK$'000				
Completed investment properties						
Office premises						
– Hong Kong	**677,000**	608,000	Comparison approach	Market price per square feet	HK$7,400 (2016:HK$6,700) per square feet in average and adjusting for age, location, condition and surrounding facilities of the properties	The higher the market price,the higher the fair value
– Shenzhen	**188,795**	151,955	Income capitalisation approach	(i) Capitalisation rate taking into account the capitalisation of rental income potential and nature of properties	5% (2016: 5%)	The higher the capitalisation rate,the lower the fair value
				(ii) Monthly market rent per square meter	RMB178 (2016:RMB140) per month per square meter in average	The higher the market rent,the higher the fair value
– Xiaoshan	**162,494**	18,257	Income capitalisation approach	(i) Capitalisation rate taking into account the capitalisation of rental income potential and nature of properties	8% (2016: 8%)	The higher the capitalisation rate, the lower the fair value
				(ii) Monthly market rent per square meter	RMB16 (2016: RMB14) per month per square meter in average	The higher the market rent, the higher the fair value

17. INVESTMENT PROPERTIES (Cont'd)

Description	Fair value as at		Valuation techniques	Unobservable inputs	Significant inputs	Relationship of inputs to fair value
	2017 HK$'000	2016 HK$'000				
Retail premises – Xinchang	**322,530**	294,378	Income capitalisation approach	(i) Capitalisation rate taking into account the capitalisation of rental income potential and nature of properties	5% (2016: 5.5%)	The higher the capitalisation rate, the lower the fair value
				(ii) Monthly market rent per square meter	RMB27 (2016: RMB27) per month per square meter in average	The higher the market rent, the higher the fair value
	1,350,819	1,072,590				

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17. INVESTMENT PROPERTIES (Cont'd)

Description	Fair value as at 2017 HK$'000	Fair value as at 2016 HK$'000	Valuation techniques	Unobservable inputs	Significant inputs	Relationship of inputs to fair value
Investment properties held for development						
Tonglu	**212,048**	116,201	Comparison approach	Market price per square meter	RMB3,016 (2016: RMB1,571) per square meter in average and adjusting for location, condition and surrounding facilities of the properties	The higher the market price, the higher the fair value
Xiaoshan	**86,988**	–	Comparison approach	Market price per square meter	RMB860 (2016: nil) per square meter in average and adjusting for location, condition and surrounding facilities of the properties	The higher the market price, the higher the the fair value
	299,036	116,201				
	1,649,855	1,188,791				

18. INTANGIBLE ASSETS

Intangible assets represent costs of setting up a computer platform for trading of garments during the year. Intangible assets are amortised on a straight-line basis over their estimated useful lives as the assets are available for use. No amortisation on the intangible assets is made for the year as the development of the platform has yet to complete. During the year ended 31 December 2017, management of the Group determines that there is no impairment on the intangible assets.

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19. INTERESTS IN JOINT VENTURES

	2017 HK$'000	2016 HK$'000
Cost of unlisted investments in joint ventures	**17,920**	17,920
Share of post-acquisition losses	**(5,307)**	(4,780)
Exchange realignment	**4,457**	3,106
	17,070	16,246

Included in interests in joint ventures is an amount of HK$8,033,000 (2016: HK$7,450,000) which represents New Media's 100% investment in Longford. Longford was established in the PRC during the year ended 31 December 2014 by New Media with a registered capital of RMB30,000,000. The legal representative of Longford is Ms. Leong, who kept the company chops, books and records as well as other relevant documents of Longford since establishment.

On 26 September 2014, the High Court of the Hong Kong Special Administrative Region made an interim order ("Longford Order") to New Media, under which the bank mandate of Longford had to be followed to the effect that one representative of the Group and Ms. Leong shall form joint signatories of the bank account and to operate it jointly. As a result of the Longford Order, Longford has become effectively jointly controlled by New Media and Ms. Leong as decisions regarding the relevant activities of the Longford effectively required unanimous consent of both the Group and Ms. Leong starting from 26 September 2014. As the Longford Order has not been released as at 31 December 2017, Longford is accounted for as a joint venture of the Group.

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19. INTERESTS IN JOINT VENTURES (Cont'd)

As at 31 December 2017 and 2016, the Group has interests in the following joint ventures:

Name	Form of business structure	Place of registration and operations	Percentage of Ownership interest 2017 %	Ownership interest 2016 %	Voting power 2017 %	Voting power 2016 %	Profit sharing 2017 %	Profit sharing 2016 %	Principal activities
Hangzhou Dalifu Silk Finishing Co., Ltd. *(note i)*	Established	PRC	**51**	51	**50**	50	**51**	51	Dyeing, printing and sandwashing of fabric
Suzhou High Fashion Garment Co., Ltd. ("Suzhou High Fashion") *(notes i & iii)*	Established	PRC	**51**	51	**60**	60	**51**	51	Garment manufacturing
The Silk Passion Company Limited ("Silk Passion") *(notes ii & iii)*	Incorporated	Hong Kong	**51**	51	**60**	60	**51**	51	Trading, marketing and promoting silk products
Flaming China Limited	Incorporated	Hong Kong	**50**	50	**50**	50	**50**	50	Inactive
Longford	Established	PRC	**65**	65	**67**	67	**65**	65	E-commerce

Notes:

(i) These joint ventures provide subcontracting services to the Group during both years.

(ii) This joint venture aims to enter into the fashion market in France.

(iii) The Group holds 51% of the registered capital and 60% voting power of Suzhou High Fashion and Silk Passion. However, under the terms of memorandum and articles of association of Suzhou High Fashion and joint venture agreement of Silk Passion, all significant events including operating and financial decisions must require unanimous consent by the Group and the other shareholder. Therefore, Suzhou High Fashion and Silk Passion are classified as joint ventures of the Group.

19. INTERESTS IN JOINT VENTURES (Cont'd)

In the opinion of the directors of the Company, these joint ventures, are not individually material to the Group for both years and therefore no separate disclosure on summarised financial information of these joint ventures is presented. The aggregate financial information of all individually immaterial joint ventures, which are accounted for using the equity method is set out below:

	2017 HK$'000	2016 HK$'000
Current assets	**64,945**	58,502
Non-current assets	**12,517**	11,908
Current liabilities	**51,709**	45,713
Income recognised in profit or loss	**39,236**	43,698
Expenses recognised in profit or loss	**40,270**	44,911
Group's share of losses of joint ventures for the year	**527**	619

The Group has discontinued recognition of its share of losses of certain joint ventures. The amount of unrecognised share of results of these joint ventures is as follows:

	2017 HK$'000	2016 HK$'000
Unrecognised share of losses of joint ventures for the year	**1**	1
Accumulated unrecognised share of losses of these joint ventures	**8,238**	8,237

At the end of both reporting periods, the Group has no commitment to fund the losses in relation to its investments in any of the joint ventures.

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20. DEPOSIT PLACED AND PREPAYMENT OF PREMIUM FOR A LIFE INSURANCE

The Group entered into a life insurance policy with an insurance company to insure an executive director. Under the policy, the beneficiary and policy holder is High Fashion Garments Management Limited ("HFGML"), a wholly owned subsidiary of the Company, and the total insured sum is approximately US$10,000,000 (equivalent to HK$77,500,000). HFGML paid a gross premium of US$3,582,000 (equivalent to HK$27,763,000), including a premium charge at inception of the policy amounting to US$214,941 (equivalent to HK$1,666,000). HFGML may request a partial surrender or full surrender of the policy at any time and receive cash based on the cash value of the policy at the date of withdrawal, which is determined by the gross premium paid plus accumulated guaranteed interest earned and minus insurance premium charged at inception. In addition, if withdrawal is made between the 1st to 15th policy year, there is a specified surrender charge. At the inception date, the gross premium was separated into deposit placed and prepayment of life insurance premium. The prepayment of life insurance premium is amortised to profit or loss over the insured period and the deposit placed is carried at amortised cost using the effective interest method. The insurance company will pay HFGML a guaranteed interest rate of 5.2% per annum for the first year, followed by minimum guaranteed interest rate of 3% per annum for the following years.

The effective interest rate for the deposit placed on initial recognition is 4.61% per annum, which was determined by discounting the estimated future cash receipts through the expected life of the policy of 15 years, excluding the financial effect of surrender charge. At 31 December 2017, the expected life of the policy remains unchanged from the initial recognition and the directors of the Company consider that the financial impact of the option to terminate the policy is insignificant.

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21. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The followings are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior years:

	Deferred tax assets						
	Unrealised profit arising on intra-group transactions	Bad and doubtful debts	Allowance on obsolete inventories	Impairment loss on property, plant and equipment	Government grant received in respect of properties	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2016	311	3,293	10,319	10,198	7,454	458	32,033
Charge to profit or loss	(108)	(354)	(1,970)	(7,726)	(138)	(209)	(10,505)
Exchange realignment	–	(29)	(716)	(321)	(453)	(20)	(1,539)
At 31 December 2016	203	2,910	7,633	2,151	6,863	229	19,989
(Charge) credit to profit or loss	**(178)**	**117**	**3,506**	**933**	**(138)**	**77**	**4,317**
Exchange realignment	**–**	**231**	**725**	**197**	**532**	**21**	**1,706**
At 31 December 2017	**25**	**3,258**	**11,864**	**3,281**	**7,257**	**327**	**26,012**

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For the year ended 31 December 2017

21. DEFERRED TAXATION (Cont'd)

	Deferred tax liabilities (assets)								
	Accelerated tax depreciation	Revaluation of investment properties	Revaluation of properties and prepaid lease payments transferred to investment properties	Acquisition cost of land use rights	Withholding tax in respect of undistributed earnings of PRC subsidiaries	Interest receivables	Fair value change in derivative financial instruments	Tax losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2016	1,212	121,068	32,986	–	38,889	4,229	(21,530)	(24,006)	152,848
Charge (credit) to profit or loss	1,703	20,260	–	–	–	(4,229)	14,149	(12,851)	19,032
Charge to other comprehensive income	–	–	1,449	–	–	–	686	–	2,135
Reversal upon reclassification to profit or loss	–	–	–	–	–	–	8,171	–	8,171
Exchange realignment	–	(3,116)	(1,019)	–	–	–	–	–	(4,135)
At 31 December 2016	2,915	138,212	33,416	–	38,889	–	1,476	(36,857)	178,051
Charge (credit) to profit or loss	**548**	**39,483**	**–**	**2,602**	**–**	**–**	**(8,752)**	**351**	**34,232**
Charge to other comprehensive income	**–**	**–**	**25,300**	**–**	**–**	**–**	**4,825**	**–**	**30,125**
Reversal upon reclassification to profit or loss	**–**	**–**	**–**	**–**	**–**	**–**	**2,693**	**–**	**2,693**
Exchange realignment	**–**	**4,143**	**2,154**	**94**	**–**	**–**	**–**	**–**	**6,391**
At 31 December 2017	**3,463**	**181,838**	**60,870**	**2,696**	**38,889**	**–**	**242**	**(36,506)**	**251,492**

Under the PRC law, withholding tax is imposed on dividends declared to non-residents in respect of profits earned by subsidiaries in the PRC from 1 January 2008 onwards. Deferred tax liabilities have not been provided for in the consolidated financial statements in respect of the temporary differences attributable to the profits earned by subsidiaries in the PRC amounting to HK$133,350,000 (2016: HK$82,584,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

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21. DEFERRED TAXATION (Cont'd)

The ultimate realisation of the above deferred tax assets depends principally on certain subsidiaries in the PRC achieving profitability and generating sufficient taxable profits to utilise the underlying deferred tax assets. Based on the taxable profit or loss projections of these businesses, it is more probable that the Group can fully utilise the deferred tax assets recognised. It may be necessary for some or all of these deferred tax assets to be reduced and charged to profit or loss if there is a significant adverse change in the projected performance and projected taxable profit of the business.

The Group has estimated unused tax losses of HK$736,360,000 (2016: HK$688,360,000) available for offsetting against future taxable profits of the companies in which the losses arose. A deferred tax asset has been recognised in respect of HK$221,248,000 (2016: HK$223,275,000) of the temporary differences, while no deferred tax asset has been recognised in respect of the remaining temporary differences of HK$515,112,000 (2016: HK$465,085,000) due to unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$66,306,000 (2016: HK$62,893,000) that will expire in 2028 to 2037. Other tax losses may be carried forward indefinitely.

22. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	**246,346**	164,213
Work in progress	**141,175**	124,634
Finished goods	**135,003**	127,949
	522,524	416,796

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23. PROPERTIES HELD FOR SALE

	2017 HK$'000	2016 HK$'000
Properties under development held for sale	**103,261**	61,291
Completed properties	**85,630**	95,901
	188,891	157,192
Properties under development held for sale of which:		
Expected to be completed within twelve months	**103,261**	–
Expected to be completed more than twelve months after the end of the reporting period	**–**	61,291
	103,261	61,291

24. TRADE RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**414,612**	386,793
Less: Allowance for bad and doubtful debts	**(11,363)**	(16,327)
	403,249	370,466

Trade receivables mainly comprise receivables from sales of garments and renting of properties. Credit terms granted to the customers for garment trading range from 30 to 90 days. Rentals are payable by tenants upon presentation of demand notes. No credit period is granted to tenants.

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24. TRADE RECEIVABLES (Cont'd)

The aged analysis of the Group's trade receivables net of allowance for doubtful debt is presented based on the invoice date at the end of the reporting period, which approximates the respective revenue recognition dates.

	2017 HK$'000	2016 HK$'000
Within 90 days	**367,945**	335,280
91 to 180 days	**23,413**	30,687
181 to 360 days	**9,514**	2,390
Over 360 days	**2,377**	2,109
	403,249	370,466

The Group has policy of making allowance for bad and doubtful debts which is based on the evaluation of collectability and age of accounts and on management's judgement including credit worthiness and past collection history of each customer. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributed to customers are reviewed twice a year.

At the end of the reporting period, trade receivables with an aggregate carrying amount of HK$270,507,000 (2016: HK$272,081,000) are neither past due nor impaired for which management of the Group considers these amounts are of good credit quality.

Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of HK$132,742,000 (2016: HK$98,385,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The directors of the Company believe that there is no further provision required in excess of the allowance for bad and doubtful debts at the end of the reporting period as these amounts are of good credit quality and there are continuous subsequent settlement from customers. The average age of these receivables is 100 days (2016: 100 days).

Notes to the Consolidated Financial Statements

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24. TRADE RECEIVABLES (Cont'd)

Aging of trade receivables which are past due but not impaired:

	2017 HK$'000	2016 HK$'000
Overdue by:		
Within 90 days	**114,689**	92,084
91 – 180 days	**13,010**	4,166
181 – 360 days	**3,063**	1,189
Over 360 days	**1,980**	946
Total	**132,742**	98,385

Movements in the allowance for doubtful debts:

	2017 HK$'000	2016 HK$'000
Balance at beginning of the year	**16,327**	12,707
Exchange adjustment	**560**	(900)
Impairment losses recognised on receivables *(note i)*	**5,530**	11,595
Amounts written off as uncollectible *(note ii)*	**(8,913)**	(2,892)
Amounts recovered during the year	**(2,141)**	(4,183)
Balance at end of the year	**11,363**	16,327

Notes:

(i) Impairment losses are recognised on in which individual trade receivables that are past due at the end of the reporting period and management of the Group believes they are unlikely to be recovered based on past collection history and credit worthiness of each customer. The Group does not hold any collateral over these balances.

(ii) Individually impaired trade receivable are written off as uncollectible when the customers are in severe financial difficulties.

25. BILLS RECEIVABLE

At the end of the reporting period, bills receivable of HK$5,807,000 (2016: HK$4,961,000) are aged within 90 days (2016: within 90 days) from the respective invoice dates. Included in the bills receivable are discounted bills with recourse of HK$4,303,000 (2016: HK$4,147,000), their corresponding financial liabilities are included in bank borrowings disclosed in note 34. Details relating to transfer of financial assets are set out in note 41.

26. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Customs deposit	**36,145**	33,520
Prepayments and advances to suppliers	**81,333**	57,328
Value-added tax receivables	**26,252**	20,832
Rent and other receivables	**16,720**	25,824
Utility and other deposits	**8,534**	7,934
Others	**6,984**	4,796
	175,968	150,234

Included in deposits, prepayments and other receivables is a deposit of RMB30,000,000 (equivalent to HK$36,145,000) (2016: RMB30,000,000 (equivalent to HK$33,520,000)) paid to the customs authority in Shaoxing City of Zhejiang Province in the PRC in relation to an ongoing enquiry of customs duty for import of certain machinery parts and apparel accessories for manufacturing by the PRC factories into China.

In June 2016, a Judgement was made by the Intermediate People's Court Shaoxing, Zhejiang Province (the "Judgement") regarding the aforesaid case. According to the Judgement, the Group was convicted of an offence of illicit transportation of common goods or articles without paying customs duty and was required to pay a penalty of RMB28,000,000 (the "Fine") and customs of RMB27,000,000 (the "Customs") on these imported machinery parts and apparel accessories, out of which the RMB30,000,000 deposit previously paid to the Customs Authority would be confiscated by the Customs Authority and used to offset the amount payable. The Judgement has not yet taken effect, while the Group has submitted an appeal application (the "Appeal") on the Judgement in July 2016.

In June 2017, a ruling was made by the High People's Court of Zhejiang Province on the Appeal proceeding to the effect that due to the unclear facts ascertained in the Judgement, the Judgement made by the Intermediate People's Court Shaoxing, Zhejiang Province was revoked, and the customs proceedings were remitted to the Intermediate People's Court Shaoxing, Zhejiang Province for retrial.

The customs proceedings are currently subject to retrial by the Intermediate People's Court Shaoxing, Zhejiang Province, and therefore, payment for the Fine and Customs has not been required. The management of the Group had sought advice from the PRC legal professionals who advised that the Judgement would not take effect and the facts set out in the claims were unclear and without merit against which the Group had strong grounds to defend. Further, the next court hearing is expected to be held within the next twelve months from the end of the reporting period. Accordingly, the directors of the Company consider that no provision for impairment loss on the deposit is necessary and the deposit is presented as a current asset in the consolidated financial statements.

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27. AMOUNTS DUE FROM AND TO JOINT VENTURES

The amounts due from joint ventures are unsecured, interest-free and repayable on demand.

The amounts due from joint ventures represent receivable of HK$27,050,000 (2016: HK$26,136,000) which is non-trade in nature.

The amount due to a joint venture as at 31 December 2016 represented payable of HK$867,000 for purchases of raw materials and finished goods aged within 90 days.

28. DERIVATIVE FINANCIAL INSTRUMENTS

	2017 HK$'000	2016 HK$'000
Financial assets		
Cash flow hedges		
Interest rate swaps	–	734
Other derivatives (not under hedge accounting)		
Foreign exchange forward contracts	–	64,035
	–	64,769
Financial liabilities		
Cash flow hedges		
Foreign exchange forward contracts	–	56,947
Interest rate swaps	–	354
	–	57,301
Other derivatives (not under hedge accounting)		
Dual currency interest rate swap	**4,437**	5,946
Foreign currency and interest rate swap	**782**	–
Knock out forward contracts	–	3,692
	5,219	9,638
	5,219	66,939
Analysed for reporting purposes as:		
Current assets	–	64,769
Non-current liabilities	**734**	3,092
Current liabilities	**4,485**	63,847
	5,219	66,939

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28. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

Cash flow hedges

Foreign exchange forward contracts

The Group designates certain foreign exchange forward contracts as highly effective hedging instruments in order to manage the Group's foreign currency exposure in relation to foreign currency highly probable forecast sales to end customers denominated in United States Dollars ("US$") by entering into foreign exchange forward contracts to sell US$ for RMB. Management considers the hedges from the Group's perspective are effectively hedging its sales to end customers.

The Group's foreign exchange forward contracts outstanding at 31 December 2016 with an aggregate notional amount of US$82 million that the Group was required to sell US$ for RMB at exchange rates ranging from RMB6.422 to RMB6.66 for US$1 were matured during the year. The effective portion of cash flow hedges on these contracts amounting to cumulative loss of HK$20,399,000 (2016: HK$61,901,000) is reclassified from other comprehensive income upon occurrence of the sales to end customers which affect profit or loss.

Interest rate swaps

The Group uses interest rate swaps to manage its exposure to volatility in interest payments relating to certain floating rate bank borrowings which linked to Hong Kong Interbank Offered Rate ("HIBOR"). The floating-to-fixed interest rate swaps lock the interest rates at rates ranging from 2.83% to 3.75% per annum. The interest rate swaps match the major terms of the hedged underlying bank borrowings such that management of the Group considers that the interest rate swaps are highly effective hedging instruments.

The interest rate swap contracts were matured during the year. The effective portion of cash flow hedges on interest rate swaps amounting to cumulative loss of HK$1,383,000 (2016: HK$1,562,000) is reclassified from other comprehensive income to profit or loss and is included in finance costs during the year.

Other derivatives (not under hedge accounting)

Foreign exchange forward contracts

The amount as at 31 December 2016 represented the fair value of deliverable foreign exchange forward contracts with notional amount of approximately RMB570 million to sell RMB for US$ and RMB440 million to sell RMB for HK$ at contracted rates ranging from RMB6.6847 to RMB6.9687 for US$1 and RMB0.8575 to RMB0.9122 for HK$1, respectively. All contracts were matured during the year.

The net fair value loss of HK$72,610,000 (2016: net fair value gain of HK$83,534,000) is recognised in profit or loss.

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28. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

Other derivatives (not under hedge accounting) (Cont'd)

Dual currency interest rate swap

The amount represents the fair value of a dual currency interest rate swap. In accordance with the agreement, the Group shall pay fixed interest of 1% per annum on the notional amount of HK$70 million on 20 January 2014 and 2.1% per annum annually from 20 January 2014 to 20 January 2019. In return, the Group shall receive floating interest at HIBOR on the notional amount of HK$70 million quarterly from 20 April 2012 to 20 January 2019. In addition, the Group shall pay or receive interest on the notional amount of US$9,014,000 annually based on the formula set out in the agreement, while the interest rate that the Group may be required to pay is capped at 2% per annum. The net fair value loss of HK$972,000 (2016: net fair value gain of HK$194,000) is recognised in profit or loss.

Foreign currency and interest rate swap

The amount represents the fair value of foreign currency and interest rate swap contracts to swap US$ denominated bank borrowings with aggregate notional amount of US$30,391,093 to HK$230,000,000 and the interest rate of the loans from US$ London Inter-bank Offered Rate ("LIBOR") plus a spread of 1.33% to HK$ HIBOR plus a spread of 1.43%. The contracts will be terminated on 29 August 2019 and 24 January 2020, respectively.

The net fair value loss of HK$831,000 (2016: nil) is recognised in profit or loss.

Knock out forward contracts

The amount as at 31 December 2016 represented the fair value of knock out non-deliverable forward contracts with aggregate notional amount of US$2 million to sell US$1 million or US$0.5 million, on a monthly interval from January 2017 to February 2017 for RMB at the contracted rates of US$1 for RMB6.13 to RMB6.21 where the spot rate on the settlement date is below or at the contracted rate. Where the spot rate is above the contracted rate, the Group has to sell double of the amount of US$ for RMB at the contracted rate. All contracts were matured during the year.

The net fair value gain of HK$604,000 (2016: HK$2,552,000) is recognised in profit or loss.

The above derivatives are measured at fair value at the end of the reporting period. Their fair values are determined based on the valuation carried out by financial institutions, which are measured using the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and quoted forward exchange rates at the end of the reporting period. Details are set out in note 39.

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29. SHORT-TERM BANK DEPOSITS

The short-term bank deposits carry interests at fixed rates ranging from 2.1% to 3% (2016: 2.1% to 4%) per annum.

Short-term bank deposits are deposits placed with banks with more than three months to maturity when deposited. Short-term bank deposits will mature within 12 months from the end of the reporting period and are therefore classified as current assets.

30. BANK BALANCES AND CASH

Bank balances carry interests at market rates which range from 0.001% to 1% (2016: 0.001% to 1.69%) per annum.

Bank balances are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value, and have a short maturity of generally less than three months when acquired.

31. TRADE AND BILLS PAYABLES

The following is an aged analysis of the trade payables presented based on the invoice date at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
Within 90 days	**115,079**	114,090
91 to 180 days	**7,475**	10,864
181 to 360 days	**3,214**	2,656
Over 360 days	**7,917**	7,033
	133,685	134,643
Accrued purchases	**227,088**	194,952
	360,773	329,595

The average credit period on purchases of goods is 10 to 90 days. The Group has financial risk management policies in place to manage that all payables are within the credit timeframe.

All bills payable are aged within 90 days from the respective invoice dates.

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32. OTHER PAYABLES AND ACCRUALS

	2017 HK$'000	2016 HK$'000
Receipts in advance from customers	**44,227**	31,741
Value-added tax payable	**19,657**	14,667
Accruals	**27,718**	25,581
Payable for acquisition of property, plant and equipment	**1,655**	2,317
Staff salaries and welfare payable and bonus provision	**79,692**	90,885
Other payables to suppliers	**20,632**	17,003
Others	**9,508**	6,200
	203,089	188,394

33. AMOUNT DUE TO AN ASSOCIATE

The amount due to Sherman-Theme (China) Limited, an indirect associate of the Company, is unsecured, interest-free and repayable on demand.

In the opinion of the directors of the Company, the indirect associate is not material to the Group for both years and therefore no further information for the associate is disclosed.

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34. BANK BORROWINGS AND BANK OVERDRAFTS

	2017 HK$'000	2016 HK$'000
Bank borrowings (including discounted bills with full recourse)	**1,387,004**	1,215,433
Analysed as:		
Secured	**53,420**	13,124
Unsecured	**1,333,584**	1,202,309
	1,387,004	1,215,433
Carrying amount repayable *(note i)*:		
Within one year	**1,233,254**	1,060,433
More than one year, but not exceeding two years	**130,000**	135,000
More than two years, but not exceeding five years	**23,750**	20,000
	1,387,004	1,215,433
Less: Amount due within one year shown under current liabilities *(note ii)*	**1,387,004**	1,215,433
Amount shown under non-current liabilities	**–**	–

Notes:

(i) The amounts due are based on scheduled repayment dates set out in the loan agreements.

(ii) Included in HK$1,263,047,000 (2016: HK$1,206,456,000) bank borrowing that contain a repayment on demand clause, out of which HK$1,109,297,000 (2016: HK$1,051,456,000) are repayable within one year and HK$153,750,000 (2016: HK$155,000,000) are not repayable within one year pursuant to the scheduled repayment dates set out in the loan agreements.

34. BANK BORROWINGS AND BANK OVERDRAFTS (Cont'd)

Included in the carrying amount is HK$625,000,000 (2016: HK$600,000,000) bank borrowings (defined as "hedging loans" by the directors of the Company) that are repayable within one year, of which the Group undertakes that short-term bank deposits of HK$490,131,000 (2016: bank balances of HK$14,548,000 and short-term bank deposits of HK$623,092,000) have to be maintained with the respective banks during the life of these hedging loans.

The ranges of effective interest rates (which are same as the contracted interest rates) on the Group's variable-rate bank borrowings and bank overdrafts are 1.64% – 4.28% (2016: 0.58% – 3.77%).

During the year, the Group discounted bills receivable with recourse in aggregated amount of HK$69,411,000 (2016: HK$96,832,000) to banks for short-term financing. At 31 December 2017, the associated borrowings amounted to HK$4,303,000 (2016: HK$4,147,000). The relevant cash flows of these borrowings are presented as operating cash flows in the consolidated statement of cash flows as management of the Group considers the cash flows are, in substance, the receipts from trade customers.

35. PROVISION FOR LONG SERVICE PAYMENTS

	HK$'000
At 1 January 2016	3,289
Amount provided during the year	453
Amount utilised during the year	(259)
At 31 December 2016	3,483
Amount utilised during the year	**(624)**
At 31 December 2017	**2,859**

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance. The provision represents management's best estimate of the probable future payments which have been earned by the employees from their service to the Group up to the end of the reporting period.

36. SHARE CAPITAL

	Number of shares '000	Amount HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2016, 31 December 2016 and 31 December 2017	1,000,000	100,000
Issued and fully paid:		
At 1 January 2016, 31 December 2016 and 31 December 2017	305,616	30,562

All the issued shares rank pari passu in all respects including all rights as to dividends, voting and return of capital.

37. SHARE OPTION SCHEME

The purposes of the share option scheme adopted on 30 May 2012 (the "New Scheme") are to (a) provide alternative recognition to the contributions or services of employees, executives and non-executive directors; (b) strengthen the relationship between the Group and its employees and executives; (c) attract and retain key and important employees and executives; and (d) motivate employees and executives to strive for future development and expansion of the Group. Eligible participants of the New Scheme include the directors and employees of the Group. Unless otherwise terminated or amended, the New Scheme will remain in force for 10 years ending 29 May 2022.

Pursuant to the New Scheme, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other schemes shall not exceed 30% of the issued share capital of the Company from time to time. The total number of shares issued and to be issued upon exercise of options granted in accordance with the New Scheme to each eligible participant in any 12-month period must not exceed 1% of the shares of the Company in issue. The offer of a grant of share option may be accepted within 28 days from the date of the offer with no consideration being payable by the grantee. The exercisable period of the share options granted is determinable by the directors of the Company, but no later than 10 years from the date of the offer. The subscription price for the shares in respect of which options are granted is determinable by directors of the Company, but must be at least the highest of (1) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (2) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (3) the par value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meeting.

No share options were granted, exercised, cancelled or lapsed under the New Scheme during the year nor outstanding as at the end of the reporting period.

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38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the bank borrowings disclosed in note 34, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits.

The directors of the Company review the capital structure on a continuous basis. As part of this review, the directors of the Company consider the cost of capital. The Group will balance its overall capital structure through payment of dividends, share buy-backs, issuance of new shares as well as raising new debts or repayment of existing debts.

39. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2017 HK$'000	2016 HK$'000
Financial assets		
Derivative financial instruments	**–**	64,769
Loans and receivables (including cash and cash equivalents)	**1,516,014**	1,444,340
Available-for-sale investments	**675**	675
Financial liabilities		
Derivative financial instruments	**5,219**	66,939
Amortised cost	**1,848,162**	1,665,092

Financial risk management objectives and policies

The Group's financial instruments include deposit placed for a life insurance, trade and bills receivables, deposits and other receivables, derivative financial instruments, amounts due from and to joint ventures, short-term bank deposits, bank balances, trade payables, bills payable, other payables, amount due to an associate, bank overdrafts and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

39. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases. The carrying amounts of major foreign currency denominated monetary assets and monetary liabilities (including trade and bills receivables, deposits and other receivables, short-term bank deposits, bank balances and cash, trade payables, other payables, bank borrowings and foreign currency denominated intra-group balances) which expose the Group to foreign currency risk at the end of the reporting period are as follows:

	Assets		Liabilities	
	2017 **HK$'000**	2016 HK$'000	**2017** **HK$'000**	2016 HK$'000
HK$	**74,235**	37,175	**–**	–
US$	**96,109**	66,691	**184,091**	67,249
RMB	**76,084**	77,700	**41,553**	33,849

The principal and notional amounts of derivative financial instruments which expose the Group to foreign currency risk at the end of the reporting period are disclosed in note 28.

The Group entered into certain foreign exchange forward contracts as set out in note 28 to hedge against the potential currency exposure arising on the forecast sales to external parties. It is the Group's policy to negotiate the terms of the foreign exchange forward contracts to match the terms of the hedged item to maximise hedge effectiveness. In addition, the Group is also exposed to foreign currency risks arising from knock out forward contracts, foreign currency swap and foreign exchange forward contracts, which are not subject to cash flow hedges at the end of the reporting period.

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39. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

Currency risk (Cont'd)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2016: 5%) strengthening in the group entities' functional currencies against the relevant foreign currencies except for the Group's exposure of US$ relative to HK$ since the directors of the Company consider HK$ is pegged to US$ and the exposure related to US$ is insignificant. 5% (2016: 5%) is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, foreign exchange forward contracts, knock out forward contracts and foreign currency swap, and adjusts their translation at the end of the reporting period for a 5% (2016: 5%) change in foreign currency rates and forward exchange rates. The sensitivity analysis also includes inter-company balances. A positive/negative number below indicates an increase/decrease in post-tax profit for the year and hedging reserve.

	Impact on HK$		**Impact on US$**		**Impact on RMB**	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Profit or loss *(note i)*	**(2,784)**	18,399	**3,371**	2,950	**(1,438)**	157,578
Hedging reserve *(note ii)*	**–**	–	**–**	27,321	**–**	–

Notes:

(i) This is mainly attributable to the exposure outstanding on foreign currencies denominated monetary items, knock out forward contracts, foreign currency swap and foreign exchange forward contracts, which are not subject to cash flow hedges and inter-company balances at the end of the reporting period.

(ii) This is a result of the change in fair value of foreign exchange forward contracts designated as cash flow hedges in relation to the Group's foreign currency forecast sales.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent currency risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

39. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits. The Group is also exposed to cash flow interest rate risk relating to the variable-rate bank borrowings, and derivative financial instruments including receive-floating and pay-fixed interest rate swaps, dual currency interest rate swap and foreign currency interest rate swap, which mainly concentrated on fluctuation of HIBOR. Management of the Group monitors interest rate exposure and considers hedging significant interest rate exposure should the need arise. At 31 December 2016, the receive-floating and pay-fixed interest rate swaps were designated as effective hedging instruments and hedge accounting is used (see note 28 for details). The critical terms of these interest rate swaps were similar to those of hedged borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. The analysis includes the variable-rate bank borrowings, assuming that outstanding balances at the end of the reporting period are outstanding for the whole year, and interest rate swaps. A 50 basis points (2016: 50 basis points) increase or decrease is used which represents management's assessment of the reasonably possible change in interest rate. The sensitivity analysis below indicates 50 basis points (2016: 50 basis points) increase in interest rates. A negative number below indicates a decrease in post-tax profit.

	2017 **HK$'000**	2016 HK$'000
Profit or loss *(note i)*	**(5,426)**	(4,354)
Hedging reserve *(note ii)*	**–**	1,506

Notes:

(i) This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and interest swap not under hedge accounting outstanding at the end of the reporting period.

(ii) This is a result of changes in fair values of interest rate swaps designated as cash flow hedges in relation to the Group's variable-rate bank borrowings.

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

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39. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties arising from the carrying amounts of the recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, management of 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 made 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 the major customers, joint venturers, liquid funds deposited with several banks and insurance company with high credit ratings as well as counterparties with whom the Group enters into derivative financial instruments, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers, spread across geographical areas. In order to minimise the credit risk from the major customers, the terms of payment of the major customers are under bank's letter of credit. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

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 of the Group to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management of the Group monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. At 31 December 2017, the Group has available unutilised banking facilities of approximately HK$1,745 million (2016: HK$2,010 million).

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 borrowings with a repayable on demand clause are included in the earliest time band regardless of the probability of the banks which choose to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rates, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

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39. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative instruments that settle on a net basis, and the undiscounted gross (inflows) and outflows on those derivatives that require gross settlement. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments is prepared based on the contractual maturities as management of the Group considers that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

Liquidity tables

	Weighted average interest rate %	On demand or less than 3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31/12/2017 HK$'000
2017						
Non-derivative financial liabilities						
Trade payables	–	360,773	–	–	360,773	360,773
Bills payable	–	602	–	–	602	602
Other payables	–	98,411	–	–	98,411	98,411
Amount due to an associate	–	583	–	–	583	583
Bank overdrafts	2.58	694	–	–	694	694
Bank borrowings	2.58	1,286,256	102,032	–	1,388,288	1,387,004
Obligations under finance leases	8.80	20	60	20	100	95
		1,747,339	102,092	20	1,849,451	1,848,162
Derivative – net settlement						
Derivative financial instruments		1,121	3,364	734	5,219	5,219

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39. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

Liquidity tables (Cont'd)

	Weighted average interest rate %	On demand or less than 3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31/12/2016 HK$'000
2016						
Non-derivative financial liabilities						
Trade payables	–	329,595	–	–	329,595	329,595
Bills payable	–	441	–	–	441	441
Other payables	–	116,965	–	–	116,965	116,965
Amount due to a joint venture	–	867	–	–	867	867
Amount due to an associate	–	583	–	–	583	583
Bank overdrafts	2.12	1,060	–	–	1,060	1,060
Bank borrowings	2.12	1,215,433	–	–	1,215,433	1,215,433
Obligations under finance leases	8.80	18	55	91	164	148
		1,664,962	55	91	1,665,108	1,665,092
Derivative – net settlement						
Derivative financial instruments, other than foreign exchange forward contracts		4,566	2,334	3,092	9,992	9,992
Derivative – gross settlement						
Foreign exchange forward contracts						
– inflow		(444,575)	(1,244,505)	–	(1,689,080)	(1,689,080)
– outflow		445,965	1,236,027	–	1,681,992	1,681,992
		1,390	(8,478)	–	(7,088)	(7,088)

39. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

Liquidity tables (Cont'd)

The table below is the maturity analysis of bank borrowings, which includes interest payments computed using contractual rates, based on agreed scheduled repayments set out in the loan agreements irrespective of whether the terms of the bank borrowings contain a repayable on demand clause. As a result, these amounts are greater than the amounts disclosed in the "on demand or less than 3 months" time band in the maturity analysis above. Taking into account the Group's financial position of the Group, 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 borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Weighted average interest rate	Less than 3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2017	**2.58**	**962,216**	**278,551**	**155,878**	**1,396,645**	**1,387,004**
31 December 2016	2.12	907,633	160,261	157,903	1,225,797	1,215,433

The amounts included above for variable interest rate instruments of non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

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39. FINANCIAL INSTRUMENTS (Cont'd)

Fair value measurements of financial instruments

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

The Group's derivative financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

For valuation technique using discounted cash flows, the discount rates used take into consideration the credit risk of the relevant counterparties of the contracts or the Group, as appropriate.

Financial assets/ financial liabilities	Fair value as at 31 December 2017	Fair value as at 31 December 2016	Fair value hierarchy	Valuation technique(s) and key input(s)
Foreign exchange forward contracts	–	Assets – HK$64,035,000 Liabilities – HK$56,947,000	Level 2	Valuation technique: Discounted cash flow. Key inputs: Forward exchange rates, contracted exchange rates and discount rates.
Interest rate swaps (designated for hedge accounting)	–	Assets – HK$734,000 Liabilities – HK$354,000	Level 2	Valuation technique: Discounted cash flow. Key inputs: Forward interest rates, contracted interest rates and discount rates.
Dual currency interest rate swap	Liability – HK$4,437,000	Liability – HK$5,946,000	Level 2	Valuation technique: Discounted cash flow and option pricing model. Key inputs: Forward interest rates, forward exchange rates, contracted interest rates, discount rate and HSBC Dynamic Term Premium Index 10 as published on Bloomberg Screen and its volatility.
Foreign currency and interest rate swap	Liability – HK$782,000	–	Level 2	Valuation technique: Discounted cash flow and option pricing model. Key inputs: Forward interest rates, forward exchange rates, contracted interest rates, discount rate and volatility of exchange rate of HK$ vs US$.
Knock out forward contracts	–	Liability – HK$3,692,000	Level 2	Valuation techniques: Discounted cash flow and option pricing model. Key inputs: Forward exchange rates, contracted exchange rates and discount rates and volatility of exchange rate of RMB vs US$.

There is no transfer between level 1 and 2 for both years.

39. FINANCIAL INSTRUMENTS (Cont'd)

Fair value measurements of financial instruments (Cont'd)

Fair value 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 recorded at amortised cost in the consolidated financial statements approximate their fair values.

40. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING ENFORCEABLE MASTER NETTING ARRANGEMENTS

The Group has entered into certain derivative transactions that are covered by the International Swaps and Derivatives Association Master Netting Agreements ("ISDA Agreements") signed with various banks. These derivative instruments are not offset in the consolidated statement of financial position as the ISDA Agreements are in place with a right of set off only in the event of default, insolvency or bankruptcy so that the Group currently has no legally enforceable right to set off the recognised amounts.

Financial assets of the Group subject to ISDA Agreements by counterparty:

	Carrying amounts of financial assets in the consolidated statement of financial position		Related amounts not set off in the consolidated statement of financial position –	
	Bank balances HK$'000	Derivative financial assets HK$'000	derivative financial liabilities HK$'000	Net amount HK$'000
At 31 December 2017				
Bank B	**83**	**–**	**(83)**	**–**
Bank G	**354**	**–**	**(354)**	**–**
Total	**437**	**–**	**(437)**	**–**
At 31 December 2016				
Bank A	26	13,793	(13,819)	–
Bank B	100	–	(100)	–
Bank C	2,314	29,821	(12,473)	19,662
Bank D	991	14,120	(15,111)	–
Bank E	78	2,903	(2,981)	–
Bank F	79	4,132	(160)	4,051
Total	3,588	64,769	(44,644)	23,713

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40. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING ENFORCEABLE MASTER NETTING ARRANGEMENTS (Cont'd)

Derivative financial liabilities of the Group subject to ISDA Agreements by counterparty:

	Carrying amounts of financial liabilities presented under "Derivative financial instruments" in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position – financial assets HK$'000	Net amount HK$'000
At 31 December 2017			
Bank B	**(4,437)**	**83**	**(4,354)**
Bank G	**(782)**	**354**	**(428)**
Total	**(5,219)**	**437**	**(4,782)**
At 31 December 2016			
Bank A	(16,991)	13,819	(3,172)
Bank B	(5,946)	100	(5,846)
Bank C	(12,473)	12,473	–
Bank D	(26,609)	15,111	(11,498)
Bank E	(4,760)	2,981	(1,779)
Bank F	(160)	160	–
Total	(66,939)	44,644	(22,295)

The gross amounts of the recognised financial assets and financial liabilities disclosed in the above tables, which are subject to enforceable master netting arrangements, are measured as follows:

- Bank balances – amortised cost
- Derivatives financial instruments – fair value

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41. TRANSFERS OF FINANCIAL ASSETS

The following is the Group's bills receivable as at 31 December 2017 and 2016 that are transferred to banks by discounting bills receivable on a full recourse basis. If the bills receivable are not paid on maturity, the banks have the rights to request the Group to pay the unsettled balances. As the Group has not transferred the significant risks and rewards relating to the bills receivable, it continues to recognise the full carrying amount of the bills receivable and has recognised the cash received on the transfer as a secured borrowing (see note 34). The bills receivable are carried at amortised cost in the Group's consolidated statement of financial position.

	2017 HK$'000	2016 HK$'000
Carrying amount of transferred assets	**4,303**	4,147
Carrying amount of associated liabilities	**(4,303)**	(4,147)

42. PLEDGE OF ASSETS

At the end of the reporting period, in addition to the bills receivable discounted to banks as disclosed in note 41, the Group has pledged the following assets to secure credit facilities granted to the Group:

	2017 HK$'000	2016 HK$'000
Trade receivables	**14,872**	16,921

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43. OPERATING LEASES

(a) The Group as lessor

The Group leases its investment properties under operating lease arrangements with average lease term of one to two years.

At the end of the reporting period, the Group has contracted with tenants for the following future minimum lease payments:

	2017 HK$'000	2016 HK$'000
Within one year	**29,253**	19,714
In the second to fifth year, inclusive	**79,994**	42,983
Over five years	**25,428**	4,467
	134,675	67,164

(b) The Group as lessee

The Group has commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**15,416**	16,333
In the second to fifth year, inclusive	**15,361**	17,825
Over five years	**–**	186
	30,777	34,344

Operating lease payments represent rental payable by the Group for certain of its office premises, retail shops and factories. Leases are negotiated for terms ranging from one to ten years and rental are fixed over the lease terms. In addition to the fixed rentals which are disclosed above, pursuant to the terms of certain lease agreements, the Group has to pay a rental based on certain percentage of the gross sales of the relevant shop.

44. CAPITAL COMMITMENTS

	2017 HK$'000	2016 HK$'000
Capital expenditure in respect of the property, plant and equipment and investment properties contracted for but not provided for in the consolidated financial statements	**152,619**	59,295

45. RETIREMENT BENEFITS SCHEMES

The Group participates in the Mandatory Provident Fund Schemes (the "MPF Schemes") for all qualifying employees of the Group in Hong Kong. The Group follows the minimum contribution requirement of 5% of eligible employees' relevant aggregated income with a cap of HK$1,500 per month. The assets of the MPF Schemes are held separately from those of the Group, in funds under the control of the trustees. The employees of the subsidiaries in the PRC are members of retirement benefits schemes operated by the PRC government. The contributions are charged to the profit or loss as incurred. The relevant PRC subsidiaries are required to make contributions to the state retirement schemes in the PRC based on a certain percentage of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff.

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46. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	HK$'000
Cash and cash equivalents	502,663
Gross debts	(1,387,099)
	(884,436)

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.

	Cash and cash equivalents HK$'000	Dividend payable HK$'000	Bank borrowings *(note 34)* HK$'000	Obligations under finance leases HK$'000	Total HK$'000
At 1 January 2017	330,195	–	(1,215,433)	(148)	(885,386)
Net cash flows	141,458	18,336	(201,500)	78	(41,628)
Finance costs *(note 8)*	–	–	(35,733)	(12)	(35,745)
Dividends declared	–	(18,336)	–	–	(18,336)
Non-cash settlement of discounted bills with recourse	–	–	69,255	–	69,255
Exchange realignment	31,010	–	(3,593)	(13)	27,404
At 31 December 2017	502,663	–	(1,387,004)	(95)	(884,436)

47. RELATED PARTY TRANSACTIONS

Apart from amounts due from and to joint ventures and amount due to an associate as set out in notes 27 and 33, respectively, the Group had the following transactions with related parties during the year:

	2017 HK$'000	2016 HK$'000
Purchases of raw materials and finished goods from joint ventures	**8,950**	7,786
Sales of raw materials and finished goods to joint ventures	**1**	999

Compensation of key management personnel

The remuneration of directors of the Company, which are the key management personnel during the year are set out in note 9, is determined by the remuneration committee having regard to the performance of individuals and market trends.

48. CONTINGENT LIABILITIES

In addition to the tax audit on certain group companies and the ongoing enquiry of customs duty as disclosed in notes 10 and 26, respectively, the Group has the following contingent liabilities:

There were disputes amongst the Group, Hansen International Limited ("Hansen"), Ms. Leong, the beneficial owner of Hansen, and certain directors of the Company and several legal proceedings are taking place. The aforesaid parties in the action have agreed to generally extend the deadlines of filing various documents with court. Given that the evidence is still at an early stage, in the opinion of directors of the Company, the ultimate outcome is unable to be determined and no provision has been made accordingly.

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49. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group		Principal activities
			2017 %	2016 %	
Angel Star Investment Limited	Hong Kong	HK$2 Ordinary HK$2 Non-voting deferred	**65**	65	Holding of trademarks
August Silk Inc.	USA	US$10	**100**	100	Marketing and garment trading
Bramead International Inc.	British Virgin Islands ("BVI")/ USA	US$1	**100**	100	Holding of trademarks
Da Fu Li Co., Limited	Taiwan	New Taiwan dollars 300,000	**65**	65	Garment trading
Dongguan Dalisheng Fashion Co., Ltd. *(note i)*	PRC	HK$28,000,000	**100**	100	Garment manufacturing
Dongguan Yihao Fashions Limited *(note i)*	PRC	HK$20,500,000	**100**	100	Garment manufacturing
Eminent Garment (Cambodia) Limited	Cambodia	US$250,000	**100**	100	Garment manufacturing
Eminent Garment Limited	Hong Kong	HK$2	**100**	100	Garment trading
Hangzhou Fortune Property Co., Ltd. *(note i)*	PRC	US$7,500,000	**100**	100	Property development
杭州譽瑞資產管理有限公司	PRC	RMB1,000,000	**100**	100	Property rental
High Fashion Accessories and Gifts Limited	Hong Kong	HK$2	**100**	100	Accessories trading
High Fashion Apparel Limited	BVI/Hong Kong	US$1,000	**100**	100	Investment holding

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group 2017 %	2016 %	Principal activities
High Fashion (China) Co., Ltd. *(note i)*	PRC	US$116,865,779	**100**	100	Dyeing, printing and sandwashing of fabrics and garment manufacturing
High Fashion Garments Company Limited	Hong Kong	HK$2 ordinary HK$10,000,000 Non-voting deferred	**100**	100	Garment trading
High Fashion Garments, Inc.	USA	US$5,000	**100**	100	Marketing and garment trading
High Fashion Garments Macao Commercial Offshore Limited	Macau	Macau Pataca 100,000	**100**	100	Garment trading and agency
HFGML	Hong Kong	HK$20 Ordinary HK$20 Non-voting deferred	**100**	100	Provision of management services
High Fashion International (USA) Inc.	USA	US$1,800	**100**	100	Investment holding
High Fashion Knit Company Limited	Hong Kong	HK$2	**100**	100	Garment trading
High Fashion Knitwear Company Limited	Hong Kong	HK$2 Ordinary HK$1,000,000 Non-voting deferred	**100**	100	Cultural complex trading

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group		Principal activities
			2017 %	2016 %	
High Fashion Knitwear Overseas Limited	Hong Kong	HK$2 Ordinary HK$10,000 Non-voting deferred	**100**	100	Garment trading
High Fashion (Shenzhen) Supply Chain Management Co., Ltd. *(note i)*	PRC	RMB3,000,000	**100**	100	Provision of management services
High Fashion Silk (Zhejiang) Co., Ltd. *(note i)*	PRC	US$50,000,000	**100**	100	Silk weaving
High Fashion (UK) Limited	United Kingdom	British pounds 20,000	**70.5**	70.5	Garment trading
Navigation Limited	BVI/Hong Kong	US$1	**100**	100	Investment holding
Rosso Amaranto S.r.l	Italy	EUR100,000	**80**	80	Trading of fabrics
Shanghai Jingye E-Commerce Holdings Co., Ltd.	PRC	RMB1,000,000	**100**	N/A	E-Commerce
Shenzhen Daliyu Fashion Co. Ltd. *(note i)*	PRC	RMB1,000,000	**100**	100	Garment retailing
Shenzhen Huijian Fashion Co., Ltd *(note i)*	PRC	RMB10,000,000	**65**	65	Garment retailing
Stage II Limited	Hong Kong	HK$800,000	**65**	65	Garment trading
Super Topping Limited	Hong Kong	HK$2	**100**	100	Provision of management services

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group 2017 %	2016 %	Principal activities
The King Garment Limited	Hong Kong	HK$2	**100**	100	Garment trading
Theme Fashion (Singapore) Pte. Ltd.	Singapore	Singapore dollars 100,000	**65**	65	Garment retailing
Theme Garments (Shenzhen) Company Limited *(note i)*	PRC	RMB60,000,000	**100**	100	Garment retailing
Theme International Holdings (B.V.I.) Limited	BVI	US$10,001	**100**	100	Investment holding
新昌達利置業有限公司 *(note i)*	PRC	RMB5,000,000	**100**	100	Property development
Win One Retailing (Singapore) Pte. Ltd. *(note ii)*	Singapore	Singapore dollars 100,000	**100**	N/A	Garment retailing
Zhejiang High Fashion Culture Creativity Co., Ltd. *(note i)*	PRC	US$20,000,000	**100**	100	Cultural complex development

Notes:

(i) These companies are registered as a wholly-owned foreign enterprise.

(ii) The company was set up during the year ended 31 December 2017.

High Fashion Apparel Limited is a directly held wholly owned subsidiary of the Company. Except for High Fashion Apparel Limited, all subsidiaries listed above are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in Hong Kong, PRC, USA and BVI. The principal activities of these subsidiaries are summarised as follows:

Principal activities	Place of incorporation or registration/operations	Number of subsidiaries	
		2017	2016
Investment holding	Hong Kong	**14**	11
	BVI	**3**	3
		17	14
Inactive	Hong Kong	**16**	19
	PRC	**8**	10
	BVI	**12**	8
	USA	**1**	1
		37	38
		54	52

In the opinion of the directors of the Company, there is no subsidiary that has non-controlling interest that is individually material to the Group for both years and therefore no further information is disclosed for these non-wholly owned subsidiaries.

None of the subsidiaries had issued any debt securities at the end of the year.

50. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2017 HK$'000	2016 HK$'000
Non-current asset		
Investment in a subsidiary	**426,671**	426,671
Current assets		
Prepayment	**149**	150
Amount due from a subsidiary	**27,598**	27,594
Bank balances and cash	**140**	139
	27,887	27,883
Current liabilities		
Other payables and accruals	**112**	111
Net current assets	**27,775**	27,772
	454,446	454,443
Capital and reserves		
Share capital	**30,562**	30,562
Reserves	**423,884**	423,881
Total equity	**454,446**	454,443

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

50. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Cont'd)

Movements in the Company's reserves

	Share premium HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Contribution surplus HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 January 2016	287,656	16,520	8,511	101,171	10,617	424,475
Profit for the year	–	–	–	–	17,742	17,742
Dividends declared and paid in cash	–	–	–	–	(18,336)	(18,336)
At 31 December 2016	**287,656**	**16,520**	**8,511**	**101,171**	**10,023**	**423,881**
Profit for the year	**–**	**–**	**–**	**–**	**18,339**	**18,339**
Dividends declared and paid in cash	**–**	**–**	**–**	**–**	**(18,336)**	**(18,336)**
At 31 December 2017	**287,656**	**16,520**	**8,511**	**101,171**	**10,026**	**423,884**

Financial Summary

A summary of the published results and of the assets and liabilities of the Group for the last five financial periods, as extracted from the audited financial statements, is set out below:

RESULTS

	Year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**2,732,974**	2,422,545	2,678,240	2,864,787	2,806,661
Profit before taxation	**88,601**	85,232	57,011	123,241	237,761
Taxation	**(45,926)**	(43,968)	(13,768)	(30,900)	(44,937)
Profit for the year	**42,675**	41,264	43,243	92,341	192,824
Profit for the year attributable to:					
Owners of the Company	**41,976**	43,277	46,424	101,468	194,483
Non-controlling interests	**699**	(2,013)	(3,181)	(9,127)	(1,659)
	42,675	41,264	43,243	92,341	192,824

ASSETS AND LIABILITIES

	At 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**4,899,757**	4,305,881	4,610,768	5,706,923	6,121,493
Total liabilities	**(2,379,649)**	(2,142,725)	(2,369,566)	(3,195,392)	(3,476,324)
	2,520,108	2,163,156	2,241,202	2,511,531	2,645,169

Schedule of Principal Investment Properties

Particulars	Approximate Gross Floor Area (square meters)	Lease Term	Usage	Stage of Completion	Group's interest (%)
G/F-9/F, High Fashion Centre, 1-11 Kwai Hei Street, Kwai Chung, New Territories, Hong Kong. High Fashion Centre *(note i)*	12,706	Medium term	Commercial/Office	Completed	100%
Shennan Road, Che Gong Miao, Fu Tian District, Shenzhen. Hanggang Fuchun Commercial Building 12units on L1 & L2.	3,667	Long term	Commercial/Office	Completed	100%
8, Qiannong Road (E), Xiaoshan Economic and Technological Development Zone, Hangzhou, Zhejiang Province. *(note ii)*	46,810	Medium term	Industrial	Completed	100%
109, Renmin East Road, Xinchang County, Shaoxing, Zhejiang Province. 達利廣場	33,252	Medium term	Commercial	Completed	100%
Jiangbin East Road, Xinchang County, Shaoxing, Zhejiang Province. 達利大廈	26,883	Long term	Commercial/Office	Completed	100%
Southeast intersection of Yingchun South Road and 320 National Road, Chengxin Zone, Tonglu County, Zhejiang Province. (land lot no. 1&2)	56,632	Medium term	Cultural and tourist attraction	Under development	100%
Qianjiang farm, Qianjiang road south, Bridge south, Xiaoshan, Hangzhou, Zhejiang Province.	84,001	Long term	Industrial	Under development	100%
Yingchun South Road and 320 National Road, Tonglu County, Zhejiang Province. (land lot no. 4)	34,013	Medium term	Commercial	Under development	100%

Note:

(i) 10/F-13/F of High Fashion Centre serving as the Group's head office not included in the above.

(ii) Areas currently occupied by the Group's manufacturing business not included in the above.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lam Foo Wah
(Chairman and Managing Director)
Ms. So Siu Hang, Patricia
Mr. Lam Gee Yu, Will
Mr. Lam Din Yu, Well

Non-executive Directors

Professor Yeung Kwok Wing
Mr. Hung Ka Hai, Clement

Independent Non-executive Directors

Mr. Woo King Wai
Mr. Wong Shiu Hoi, Peter
Mr. Leung Hok Lim

AUDIT COMMITTEE

Mr. Leung Hok Lim *(Chairman)*
Professor Yeung Kwok Wing
Mr. Woo King Wai
Mr. Wong Shiu Hoi, Peter

REMUNERATION COMMITTEE

Mr. Wong Shiu Hoi, Peter *(Chairman)*
Professor Yeung Kwok Wing
Mr. Woo King Wai
Mr. Leung Hok Lim

NOMINATION COMMITTEE

Mr. Lam Foo Wah *(Chairman)*
Professor Yeung Kwok Wing
Mr. Woo King Wai
Mr. Wong Shiu Hoi, Peter
Mr. Leung Hok Lim

RISK MANAGEMENT COMMITTEE

Mr. Wong Shiu Hoi, Peter *(Chairman)*
Mr. Leung Hok Lim
Mr. Lam Gee Yu, Will
Mr. Poon Yiu Ming

COMPANY SECRETARY

Ms. Yau Oi Kwan Angela

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISER IN HONG KONG

Wilkinson & Grist

LEGAL ADVISER ON BERMUDA LAW

Conyers Dill & Pearman

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM11, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

22/F., CITIC Telecom Tower
93 Kwai Fuk Road, Kwai Chung
New Territories, Hong Kong
(Change of address with effect from 7 March 2018)

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House, Church Street
Hamilton HM11, Bermuda

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank Sinopac, Hong Kong Branch
BNP Paribas, Hong Kong Branch
Citibank N.A., Hong Kong Branch
China CITIC Bank International Limited
CTBC Bank Co., Limited, Hong Kong Branch
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
OCBC Wing Hang Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited
United Overseas Bank Limited, Hong Kong Branch

Shareholders & Investor Relation Information

RESULTS ANNOUNCEMENT:

2017 Final	27 March 2018
2017 Interim	29 August 2017
2016 Final	30 March 2017
2016 Interim	30 August 2016

2018 ANNUAL GENERAL MEETING

6 June 2018

CLOSURE OF REGISTER OF MEMBERS

Events	Book close period *(both days inclusive)*
For attendance to 2018 Annual General Meeting	4 June 2018 to 6 June 2018
For entitlement to the proposed final dividend	14 June 2018 to 15 June 2018

DIVIDENDS:

2017 Final	3 HK cents per share payable on or about 29 June 2018
2017 Interim	3 HK cents per share paid on 16 October 2017
2016 Final	3 HK cents per share paid on 29 June 2017
2016 Interim	3 HK cents per share paid on 13 October 2016

AUTHORISED SHARES

1,000,000,000 shares

ISSUED SHARES

305,615,420 shares (as at 31 December 2017)

BOARD LOT

2,000 shares

FINANCIAL YEAR END

December 31

STOCK CODE

608

COMPANY WEBSITE

www.highfashion.com.hk

LISTING DATE

4 August 1992