TRISTATE

Tristate Holdings Limited

Annual Report
2018

Stock code: 458

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Contents

Corporate Information

WANG KOO Yik Chun
Honorary Chairlady

Board of Directors

Executive Director:

WANG Kin Chung, Peter,
Chairman and Chief Executive Officer

Non-Executive Directors:

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

Independent Non-Executive Directors:

LO Kai Yiu, Anthony
James Christopher KRALIK
Peter TAN

Audit Committee

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

Remuneration Committee

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

Share Option Committee

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

Chief Financial Officer

CHAN Man Ying, Vivian

Company Secretary

TO Hon Fai

Auditor

KPMG, *Certified Public Accountants*

Legal Advisors

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

Principal Bankers

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

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Head Office and Principal Place of Business in Hong Kong

5th Floor, 66–72 Lei Muk Road
Kwai Chung, New Territories
Hong Kong

Tel	:	(852) 2279-3888
Fax	:	(852) 2480-4676
Website	:	http://www.tristateww.com

Corporate Communications

The Company Secretary
Tristate Holdings Limited
5th Floor, 66–72 Lei Muk Road
Kwai Chung, New Territories
Hong Kong

Tel	:	(852) 2279-3888
Fax	:	(852) 2423-5576
Email	:	cosec@tristateww.com

Listing Information

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

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

Principal Registrar and Transfer Office

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Branch Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Five-Year Financial Summary

	2018	2017	2016	2015	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Consolidated Statement of Profit or Loss					
Revenue	**2,578,322**	1,922,706	2,253,655	2,515,738	3,580,029
(Loss)/profit for the year attributable to:					
Equity shareholders of the Company	**(80,455)**	(64,180)	(84,091)	(45,669)	148,277
Non-controlling interests	**622**	(800)	(2,520)	(22)	21
(Loss)/profit for the year	**(79,833)**	(64,980)	(86,611)	(45,691)	148,298
Basic (loss)/earnings per share attributable to equity shareholders of the Company	**HK$(0.30)**	HK$(0.24)	HK$(0.31)	HK$(0.17)	HK$0.55

	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Consolidated Statement of Financial Position					
Non-current assets	**954,308**	696,212	676,865	821,069	802,932
Current assets	**1,097,484**	1,086,299	1,199,914	1,401,159	2,041,360
Current liabilities	**507,088**	411,690	527,933	743,478	1,175,690
Net current assets	**590,396**	674,609	671,981	657,681	865,670
Total assets less current liabilities	**1,544,704**	1,370,821	1,348,846	1,478,750	1,668,602
Non-current liabilities	**367,360**	77,733	112,873	96,904	115,631
Net assets	**1,177,344**	1,293,088	1,235,973	1,381,846	1,552,971
Total equity attributable to equity shareholders of the Company	**1,179,670**	1,296,036	1,238,121	1,381,532	1,552,635
Non-controlling interests	**(2,326)**	(2,948)	(2,148)	314	336
Total equity	**1,177,344**	1,293,088	1,235,973	1,381,846	1,552,971

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Our Business

We are pleased to report that for the financial year 2018, the Group has recorded significant revenue growth and an EBITDA profit of HK$26 million (2017: negative EBITDA of HK$5 million). This was contributed by the good performance of our garment manufacturing business and our own premium Italian sportswear brand C.P. Company; and offset by the drop in consultancy fee income from Jack Wolfskin China business and the investments in our other brands. While reporting a positive EBITDA, the Group recorded a loss attributable to equity shareholders of HK$80 million (2017: HK$64 million) for the year ended 31 December 2018. The increase in reported loss is mainly due to increase recognition of brands licence right amortisation and imputed interest on licence fees payable totalling HK$30 million over 2017 pursuant to the accounting policy for the long-term licences the Group entered during the year for Nautica and Spyder.

Our garment manufacturing business recorded notable growth in revenue and profitability in 2018 with increased orders from key premium business customers and our effort of improving production efficiency. We continue to maintain steady and long-term relationship with our existing customers and have expanded our customer base. During the year, we also developed our Southeast Asian factories to manufacture outerwear products with positive response from customers. We continued to apply and enhance our unique manufacturing system in our China factories where we operate a multi-level automation and specialisation production system using special machines and skill modules. It allows us to meet customers' requirement for high quality standard with varying quantity and product type.

C.P. Company has year-on-year high double-digit growth in revenue since acquisition. For the financial year 2018, C.P. Company revenue grew 70% over 2017 and reported positive EBITDA contribution. European wholesale continued to pose strong growth in particular for sales to Italy, the UK, Benelux, South Korea and France. UK and Italy remained the largest contributors accounted for over 50% of the C.P. Company revenue. Northern and Eastern Europe showed high demand and good growth potential. In January 2019, we opened our new Milan showroom at Superstudio Piu, a proper venue for the most vital operators and creative people from fashion, art, design etc. Our ongoing global marketing campaign "#EyesOnTheCity" explores different urban scenarios and exceptional landscapes from the perspective of the C.P. Company customers. Since September 2017, "#EyesOnTheCity" also featured eight chapters of video exploring the urban landscape and culture of eight different cities through special C.P. Company guests.

Adding to our own brands, we are pleased to enter long-term licence agreements for two international brands with high potentials – Nautica and Spyder in this year to expand our brand portfolio. In April 2018, we entered a long-term licence agreement to distribute Nautica products in Mainland China and Hong Kong following Nautica being acquired by Authentic Brands Group globally. In June 2018, we signed another licence agreement with Authentic Brands Group for a leading American ski brand "Spyder" for Mainland China, Hong Kong, Macau and Taiwan markets. As soon as we took over Nautica, we have been working on key areas including product, system, store and advertising to reenergise the brand. We are rebuilding the Nautica brand equity in Tier 1 markets through direct retail. The brand had 31 direct retail stores, predominantly in Shanghai, Beijing and Hong Kong at the year end of 2018. For Spyder, we have developed plans and strategies on brand positioning, products and distribution channels. We plan to launch the brand from Spring/Summer 2019 season.

To better concentrate our resources on developing our long-term licensed active sports and lifestyle brands, we have decided to early terminate our licence agreement for the footwear brand ACBC and divest EFM, our urban apparel menswear brand.

Chairman's Statement

Our Performance

For the year ended 31 December 2018, the Group recorded a loss attributable to shareholders of HK$80 million as compared with a loss of HK$64 million in 2017. The Board of Directors of the Company does not recommend the payment of a final dividend.

The Group's 2018 performance reflected our plan and dedication to investment in brands business with the support from our garment manufacturing business.

Brands business

Revenue from the brands business was HK$420 million, which was 87% higher than 2017. Strong growth of wholesale by C.P. Company in key European countries and the revenue contribution from Nautica from May this year are key drivers for the increase.

C.P. Company has improved results with positive EBITDA in 2018. The 2018 segment loss of our brands business increased over 2017 mainly due to the drop in consultancy fee income from Jack Wolfskin China business following the end of service in December 2017, our investments in other brands including the first-year set up costs and shop expenses for Nautica, increase recognition of non-cash licence right amortisation and imputed interest on licence fees payable for Nautica and Spyder and our costs for divesting ACBC and EFM.

Garment manufacturing

Revenue from garment manufacturing business was HK$2,158 million, which was 27% increase over 2017. Revenue from premium business increased by 23% over last year due to strong order growth from key customers. Revenue from better business also increased by 38% mainly from healthy growth of competitive priced business.

Segment profit of garment manufacturing business increased substantially in 2018 mainly due to the increased sales revenue from premium business and improved production efficiency.

Outlook

C.P. Company remains true to its unique brand DNA. We see significant growth potentials and opportunities ahead. In early this year, we updated our three-year business plan to grow the brand. We will continue to grow number of doors in existing key and growing wholesale markets (Italy, the UK, Benelux, South Korea, France, Eastern Europe) and expand into other European markets as well as the North America and Asian markets. To complement our wholesale business, the brand will expand its direct retail at suitable locations. We will open our first flagship store in Milan in the first half 2019. We continue to enhance brand awareness and drive strong sell-through by our global marketing campaign "#EyesOnTheCity" along with other marketing activities. As a pioneer in garment dyeing with vast and accumulated know-how and experience, we launched C.P. Company Bespoke Colour project. C.P. Company offers a custom-made dyeing service to our customers with any colour they wish, and the finished garment will be dyed with a distinctive, unique, colour coded label and special edition chromatic lenses created exclusively and uniquely for them.

For Nautica, our operating team has solid experience with the brand, the market and its products and is confident to build the brand. In the coming year, we will expand our direct retail footprint through full-price stores, premium outlet stores and e-commerce. To support the business, in addition to our full range mainline collection, we are introducing "Black Sail" collection with limited quantity, limited distribution and premium quality. Specialised systems and marketing initiatives will also be deployed to enhance brand awareness, align brand positioning and drive sell-through.

For our newly licensed sports brand Spyder, we will launch the brand from Spring/Summer 2019 season with initial collections sourced from South Korea. We will open our first store in Beijing in the second quarter of 2019. The Fall/Winter collection will comprise our own design categories and the USA technical ski gear from the global line.

Our unique French concept premium ladies wear Cissonne continues to gain good traction through direct retailing in China major cities with increasing sell-through and customer loyalty. In addition to the existing three stores in China, the brand will open a new store in Beijing in the second quarter of 2019.

We will strive to maintain and further improve the performance of our garment manufacturing business in the coming year, which provides steady cashflow to the Group. The business is performing well heading into 2019. Our diversified production base allows us to serve our customers at different price range. To control rising factory costs, we impose tight material utilisation control and continue to drive efficiency and enhance our competitiveness by applying our unique manufacturing system. The US-China trade conflict will continue to cause uncertainty and challenges to the garment industry and we will closely monitor its development.

In 2019, C.P. Company shall grow further in revenue and profitability. We are confident that our garment manufacturing business will maintain stable performance and continue to generate cash flow to support the Group's business. In 2019, the Group will continue to invest and develop our long-term licensed brands Nautica and Spyder. We are confident that we are on the right track for a sustainable and long-term success of the Group.

Appreciation

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

Wang Kin Chung, Peter
Chairman and Chief Executive Officer

Hong Kong, 25 March 2019

Management Discussion and Analysis

In this Management Discussion and Analysis, we present the business review and a discussion on the financial performance of the Group for the year ended 31 December 2018.

Overview

The Group's 2018 performance reflected our plan and dedication to investment in brands business with the support from our garment manufacturing business which provides steady profitability and cashflow to the Group.

For the financial year 2018, the Group recorded significant growth in revenue and returned to EBITDA profit of HK$26 million (2017: negative EBITDA of HK$5 million). This was contributed by the good performance of our garment manufacturing business and our own premium Italian sportswear brand C.P. Company; and offset by the investments in our other brands and the drop in consultancy fee income from Jack Wolfskin China business following the cessation of service in December 2017.

Despite reporting a positive EBITDA, the Group recorded an overall loss attributable to equity shareholders of HK$80 million (2017: HK$64 million) for the year ended 31 December 2018. The increase in reported loss is mainly caused by the increase recognition of brands licence right amortisation and imputed interest on licence fees payable totalling HK$30 million over 2017 pursuant to the accounting policy for the long term licences the Group contracted during the year.

Own Brands

In the year under review, our own brand C.P. Company continued to experience strong growth in revenue and began to have positive EBITDA contribution in 2018. Revenue increased by 70% over 2017. European wholesale continued to pose strong growth in particular in sales to Italy, the UK, Benelux, South Korea and France. UK and Italy remained the largest contributors accounted for over 50% of the C.P. Company revenue. Scandinavia, Russia and Eastern Europe also showed high demand and good growth potential.

Our ongoing global marketing campaign "#EyesOnTheCity" continued to develop a unique narrative that explores different urban scenarios and exceptional landscape in cities through the personal perspective of its customers. Since September 2017, C.P. Company featured eight chapters of video exploring the urban landscape and culture of Milan, Moscow, London, Tokyo, New York, Seoul, Brighton and Dublin through special C.P. Company fans. The program also invites our customer community to take a picture of their C.P. Company goggle jacket with their city as background and share their personal distinctive urban perspective on social channels. During the year, C.P. Company also worked on a number of collaborations, including the adidas Originals collaboration which paired the two brands on and off the football terraces. The C.P. Company by adidas Originals collection reworks an array of iconic pieces, including Originals' Samba sneaker and Beckenbauer track top and one of C.P. Company's goggle jacket transformed to adidas Explorer.

Our unique French concept premium ladies wear Cissonne achieved good traction in the China premium ladies fashion market. The brand gradually expanded through direct retailing in China major cities with increasing sell-through and customer loyalty. The brand has now three stores located in Shanghai Kerry Centre, Beijing Oriental Plaza and Beijing Sanlitun respectively.

Licensed Brands

During the year, we took major steps towards establishing a long-term and high potential brands business platform. In April 2018, we entered a long-term licence agreement to distribute Nautica products in Mainland China and Hong Kong following Nautica being acquired by Authentic Brands Group globally. We took over the existing franchisee network, direct retail shops and inventories from the former operator to continue the business operation. In June 2018, we signed another licence agreement with Authentic Brands Group for a leading American ski brand "Spyder" for the China, Hong Kong, Macau, and Taiwan markets.

For the Nautica business, we are pleased to sign the long-term licence agreement with this iconic, American lifestyle brand. As soon as we took over the brand in May 2018, we have been working on key areas including new product designs, deployment of management software and systems, new store concepts, advertising, social media etc. To complement franchised retail business, we have been rebuilding brand equity in Tier 1 markets through direct retail. At the year end of 2018, Nautica had 31 direct retail stores, predominantly in Shanghai, Beijing, and Hong Kong.

To better concentrate our resources on developing our long-term licensed active sports and lifestyle brands, we have decided to early terminate our licence agreement for the footwear brand ACBC and divest EFM, our urban apparel menswear brand. Accordingly, the Group recorded one-off expenses of HK$21 million including provisions for inventory, contracted shop leases and other costs in 2018 associated with the divestiture of the two brands.

Garment Manufacturing

Our garment manufacturing business had notable growth in revenue and profitability in 2018 with increased orders from key premium business customers and improved production efficiency. Our China and Thailand factories are serving our "premium business" for fashion and complicated outerwear products. Meanwhile, our Philippines, Vietnam and Myanmar factories allow us to stay competitive in cost to support "better business" for better tailoring products. We continue to maintain steady and long-term relationship with our existing customers and also have expanded our customer base. Our unique manufacturing system allows us to safeguard product quality, as well as meeting customers' stringent requirements on changes in product type and variations in quantity especially for fashion and complicated outerwear products. With our manufacturing system, our Panyu factory is capable of handling small quantities orders with high production efficiency. During the year, we also developed our Southeast Asian factories to manufacture outerwear products with positive response. All these measures helped to control rising factory costs and price pressure from our customers as well as handling various product types.

Management Discussion and Analysis

Financial Highlights

	Note	2018	2017	Change
Operating results (HK$ million)				
Revenue		**2,578**	1,923	+34%
Gross profit		**620**	422	+47%
EBITDA		**26**	(5)	+620%
Licence related amortisation and imputed interest				
Amortisation of licence rights	1	**(21)**	(3)	-600%
Imputed interest on licence fees payable	1	**(14)**	(1)	-1,300%
Other depreciation and amortisation		**(61)**	(60)	-2%
Loss attributable to equity shareholders		**(80)**	(64)	-25%
Segment results (HK$ million)				
Garment manufacturing segment EBITDA		**144**	50	+188%
Garment manufacturing segment profit after tax		**97**	16	+506%
Brands business segment EBITDA		**(120)**	(54)	-122%
Licence related amortisation and imputed interest				
Amortisation of licence rights	1	**(21)**	(3)	-600%
Imputed interest on licence fees payable	1	**(14)**	(1)	-1,300%
Brands business segment loss after tax		**(167)**	(68)	-146%
Financial position (HK$ million)				
Intangible assets	2	**492**	208	+137%
Current assets		**1,097**	1,086	+1%
Current liabilities		**507**	412	+23%
Licence fees payable	2	**311**	27	+1,052%
Cash and bank balances		**322**	513	-37%
Bank borrowings		**74**	99	-25%
Total equity		**1,177**	1,293	-9%
Cash flow and capital expenditure (HK$ million)				
Cash (used in)/generated from operations		**(113)**	107	-206%
Capital expenditure				
Property, plant and equipment		**(48)**	(28)	-71%
Key ratios				
Gross profit margin		**24.0%**	21.9%	+2.1pp
EBITDA margin		**1.0%**	(0.3%)	+1.3pp
Net loss margin attributable to equity shareholders		**(3.1%)**	(3.3%)	+0.2pp
Return on average equity (ROE)	3	**(6.5%)**	(5.1%)	-1.4pp

Notes:

1. Licence related amortisation and imputed interest on licence fees payable being non-cash items recognised in accordance with accounting policy for our long-term licences – Nautica and Spyder.

2. Increase in intangible assets mainly due to recognition of licence rights for Nautica and Spyder brands during the year and represents capitalisation of the minimum contractual obligation payable to brand licensors at the time of inception. The relating minimum contractual obligation payable to the licensor is recognised in licence fees payable.

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

Management Discussion and Analysis

Financial Review

For the year ended 31 December 2018, the Group recorded EBITDA profit of HK$26 million (2017: negative EBITDA of HK$5 million). This was contributed by the good performance of our garment manufacturing business and our own premium Italian sportswear brand C.P. Company; and offset by the drop in consultancy fee income from Jack Wolfskin China business following the end of service in December 2017, our investments in other brands including first year set up costs for Nautica and provisions for divesting ACBC and EFM.

Despite reporting a positive EBITDA, the Group recorded a loss attributable to equity shareholders of HK$80 million (2017: HK$64 million) for the year ended 31 December 2018. The increase in reported loss is mainly caused by the increase recognition of brands licence right amortisation and imputed interest on licence fees payable totalling HK$30 million over 2017 pursuant to the accounting policy for the long term licences the Group entered during the year.

Revenue

Total revenue of the Group for the year 2018 was HK$2,578 million (2017: HK$1,923 million), representing an increase of 34% as compared with the last year.

Revenue from the brands business was HK$420 million as compared with HK$225 million in 2017. The increase was due to strong growth of wholesale by C.P. Company in key European countries, especially for Italy and the UK; and the revenue contribution of Nautica from May this year.

Revenue from the garment manufacturing segment was HK$2,158 million as compared with HK$1,698 million in 2017. Revenue from premium business, which accounted for 71% (2017: 73%) of the segment revenue, increased by 23% as compared with last year. Such increase was due to strong order growth from key customers. Revenue from better business also increased by 38%, mainly from healthy growth of the competitively priced business despite we have reduced our capacity for certain categories from customers with challenging price or high credit risk. In general, sales of fashion and complicated outerwear products of our premium business shifted our peak production season to the second and third quarters while sales income are skewed towards Fall/Winter seasons.

Geographically, major markets of the Group are US and Canada, UK and the PRC, which accounted for 37% (2017: 39%), 27% (2017: 28%) and 14% (2017: 14%) of the Group's total revenue respectively.

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

Gross Profit

During the year, the Group's overall gross profit was HK$620 million (2017: HK$422 million), representing a gross profit margin of 24.0% (2017: 21.9%). The increase in gross profit was mainly attributable to increased turnover from both brands business and garment manufacturing business. Gross profit margin of brands business decreased mainly due to first year operation of Nautica and inventory provisions for ACBC and EFM, despite improved margin for C.P. Company. Gross profit margin of the garment manufacturing business was higher than the previous year due to increase in sales from better margin premium business and improvement in production efficiency. The Group's overall gross profit margin increased due to the rise in revenue from the overall higher margin brands business.

Other Income and Other Gains

Other income and other gains in 2017 mainly included consultancy fees income for the Jack Wolfskin China business. No such income was recorded this year after the cessation of the service at the end of 2017.

Selling and Distribution Expenses

Selling and distribution expenses comprise mainly advertising and promotion, agency commission, shop and sample expenses. Selling and distribution expenses increased as compared to 2017 mainly due to inclusion of Nautica selling expenses from May this year and C.P. Company's increase in agency commission and marketing expenses in line with revenue growth.

General and Administrative Expenses

General and administrative expenses increased as compared with 2017 mainly due to the new Nautica business and in line with the growth of C.P. Company and garment manufacturing business.

Income Tax Expenses

Income tax expenses increased in this year mainly due to more profit from our garment manufacturing business.

Segment Results

Under brands business, C.P. Company has improved results in 2018. The segment loss of the brands business increased as compared with 2017 due to no consultancy fee income recorded from Jack Wolfskin China business in this year; our investments in other brands including the first-year set up costs and shop expenses for Nautica; increase recognition of licence right amortisation and imputed interest on licence fees payable for Nautica and Spyder; and one-off expenses for divesting ACBC and EFM of HK$21 million comprising provisions for inventory, lease contracts and other costs.

Segment profit of garment manufacturing business increased substantially in 2018 as compared with last year mainly due to the increased sales revenue from premium business, improved production efficiency and cost control.

There were no material acquisitions or disposals of subsidiaries or associated companies during the year and up to the date of this Annual Report. No significant events affecting the Group have occurred since 31 December 2018 and up to the date of this Annual Report.

Financial Resources and Liquidity

As at 31 December 2018, cash and bank balances amounted to HK$322 million (31 December 2017: HK$513 million) which mainly represented United States dollars ("US dollars") and Renminbi bank deposits. In 2018, the Group used more cash as compared with 2017. This is mainly caused by the followings:

– with our garment manufacturing business performing well heading into 2019, more inventories were purchased for the 2019 shipment as reported in the statement of financial position;

– in accordance with the payment schedule of Jack Wolfskin consultancy fees, in 2018 the Group received less cash than 2017 by HK$60 million;

– for the Nautica business from May this year, the Group incurred start-up costs, shop expenses and invested in working capital for the brand. In 2017, the Group received from the Nautica licensor transitional service fee and inventory consideration totaling HK$46 million after the previous licence expired in December 2016; and

– in this year, the Group spent more investment in shop and operating expenses in other brands.

The Group maintained sufficient banking facilities to support its business. Short-term bank borrowings of the Group amounted to HK$74 million as at 31 December 2018 (2017: HK$99 million). Such borrowings were mainly denominated in US dollars and bearing interest at fixed rates. The Group did not have long-term bank borrowings as at 31 December 2018 and 2017. As at 31 December 2018, bank deposits of HK$31 million was pledged to secure bank guarantee facilities granted to the Group (31 December 2017: Nil). Gearing ratio of the Group is calculated as net borrowings divided by total capital. Net borrowings are calculated as total bank borrowings less cash and bank balances, while total capital comprised total equity plus net borrowings. The Group did not have net borrowings as at 31 December 2018 and 2017, and accordingly, no information on gearing ratio as at that dates is provided.

Shareholders' equity at 31 December 2018 decreased mainly due to loss attributable to equity shareholders for the current year and exchange difference on translating the financial statements of subsidiaries in the PRC and Europe following the depreciation of the currencies during 2018.

Most of the Group's receipts and payments are denominated in US dollars, Hong Kong dollars, Renminbi, Pound Sterling and Euro. Management monitors the related foreign exchange risk exposure by entering into forward foreign exchange contracts. During the year ended 31 December 2018, the Group had forward foreign exchange contracts to hedge against the foreign exchange exposures arising from US dollars denominated processing income for factories in the PRC and Pound Sterling and Japanese Yen sales receipts of a European subsidiary.

Contingent Liabilities and Capital Commitments

There were no material capital commitments or contingent liabilities as at 31 December 2018 which would require a substantial use of the Group's present cash resources or external funding.

Human Resources

The Group had about 9,860 employees as at 31 December 2018 (2017: 9,560). Fair and competitive remuneration packages and benefits are offered to employees. Those employees with outstanding performance were also awarded discretionary bonuses and share options.

Outlook

The Group is dedicated to growing our brands business and at the same time continuing to strengthen our garment manufacturing business. Adding to our own brands, we are excited to have signed long-term licence agreements for two high potential international brands. This expands our brands portfolio and benefits us for the long-term. Strategically, we target to grow our own brands worldwide, with our licensed active sports and lifestyle brands to the premium retail market in Greater China.

C.P. Company, our major own brand, has year-on-year high double-digit growth in revenue since acquisition. Building on the heritage of C.P. Company's proprietary fabrics, garment dye and goggle jackets, we continue to strengthen our product range, innovation and design. We will continue to grow number of doors in existing key and growing wholesale markets (Italy, the UK, Benelux, South Korea, France, Eastern Europe). We will further expand into other countries in Europe as well as the North America and Asian markets. To complement the wholesale business, the brand will expand its direct retail at suitable locations. We will open our first flagship store in Milan in the first half 2019. Our global marketing campaign "#EyesOnTheCity" will continue to develop and communicate more storytelling around our customer community. The C.P. Company Bespoke Colour project will be rolled out to pay homage to its origins as a pioneer in garment dyeing, while at the same time celebrating the individuality of our customers. With its vast and accumulated know-how and experience, C.P. Company offers a custom-made dyeing service to our customers with any colour they wish. The finished garment will be dyed with a distinctive, unique, colour coded label and special edition chromatic lenses created exclusively and uniquely for our customers. The service is initially exclusively in limited numbers on one of the brand's most iconic pieces – the heavy fleece Goggle hoody and will be extended to a larger selection of C.P. Company styles.

For the Nautica business, we will leverage on our design and product development strengths as well as our many years of experience with the brand to introduce new collections and concepts at both online and offline retail. In 2019, we plan to expand our direct retail footprint through full-price stores, premium outlet stores and e-commerce. To support the business, in addition to full range mainline collection with seasonal concept, we are introducing the "Black Sail" collection with limited quantity, limited distribution and premium quality. Specialised systems are being set up for real time tracking of all key metrics and a consumer database for regular and targeted communication and sales activities. We have also formulated marketing initiatives and updated store concept to align with our brand positioning.

Our newly licensed active sports brand Spyder is new to the China market and we have worked closely with the licensor to register the relevant trademarks in China. We have developed plans and strategies on brand positioning, products and distribution channels. We plan to launch the brand from Spring/Summer 2019 season and open the first store in Beijing in the second quarter of 2019.

Cissonne will continue to grow direct to customer retail in China. With improving sell through in key cities and a favourite choice for influencers and celebrities in China, the brand will open a new store in Beijing in the second quarter of 2019. We will further increase the brand awareness through marketing and celebrity seeding.

Building on the good performance in 2018, we will continue to improve the performance of our garment manufacturing business in the coming year, which provides steady cashflow to the Group. We will maintain long-term relationship with our key customers and at the same time to develop new customers leveraging on our strength from sample development to managing bulk production. Our diversified production base allows us to serve our customers at different price range. To provide more flexibility to our customers, we have also expanded our supply chain in Southeast Asian countries. To control the rising factory costs, we will impose tight material utilisation control and continue to drive efficiency and enhance our competitiveness by applying our unique manufacturing system in our factories to guarantee quality consistency, high productivity and cost efficiency. With the US-China trade conflict, it will continue to cause uncertainty and challenges to the garment industry. We will closely monitor the development of the trade war though we are selling on a free on board origin basis. We believe our diversified production base could alleviate the pressure from the trade war in case it gets worse.

We are confident that our garment manufacturing business will maintain stable performance and continue to generate strong cash inflow to support the Group's business. C.P. Company is well positioned to further grow in revenue and profitability. In 2019, the Group will continue to invest and develop our long-term licensed brands Nautica and Spyder. We are confident that we are on the right track for the long-term sustainability and success of the Group.

Principal Risks and Uncertainties

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

Principal risks and uncertainties affecting the Group are outlined below:

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

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

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

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

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

Relationship with Business Partners and Stakeholders

Relationship with Customers

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

Relationship with Suppliers

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

Relationship with Employees

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

Compliance with Relevant Laws and Regulations

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

Environmental and Social Policies

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

Corporate Governance Practices

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

Throughout the year ended 31 December 2018, the Company has complied with all the Code Provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), except for the deviation from Code Provisions A.2.1 and A.5.

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

The Board

Board Composition

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

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

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

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

Chairman and Chief Executive Officer

During the year ended 31 December 2018 and up to the date of this Annual Report, Mr. WANG Kin Chung, Peter is the Chairman and the CEO, and that the functions of the Chairman and the CEO in the Company's strategic planning and development process overlap. These constitute a deviation from Code Provision A.2.1 which stipulates that the roles of the Chairman and the CEO should be separate and should not be performed by the same individual.

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

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

Appointment and Election of Directors

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

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

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

Accordingly, at the forthcoming annual general meeting of the Company to be held on 3 June 2019 (the "2019 AGM"), Ms. MAK WANG Wing Yee, Winnie and Mr. James Christopher KRALIK will retire by rotation and, being eligible, offer themselves for re-election as Directors in accordance with the Bye-Laws.

The Board has assessed the independence of Mr. James Christopher KRALIK who has been Independent Non-Executive Director of the Company for more than nine years and considers that he continues to be independent, notwithstanding the length of his tenure, as he satisfied all the criteria for independence as set out in Rule 3.13 of the Listing Rules. The re-election of Mr. James Christopher KRALIK as Independent Non-Executive Director will be subject to a separate resolution to be approved by shareholders at the 2019 AGM.

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

Nomination Policy

The Board adopted a nomination policy during the year ended 31 December 2018 with an aim to set out the criteria and procedures when considering candidates to be appointed or elected/re-elected as Directors of the Company.

The Board as a whole performs the duties and functions of nomination of Directors in the absence of nomination committee. When considering a candidate nominated for directorship or a Director's proposed election/re-election, the Board will have regard to the following criteria:

(i) including, but not limited to, gender, age, ethnicity, cultural and educational background, professional experience, skills, knowledge and other qualities which are listed in the Company's adopted board diversity policy (the "Board Diversity Policy");

(ii) how he/she can contribute to the diversity of the Board;

(iii) commitment of the candidate to devote sufficient time to effectively carry out his/her duties. In this regard, the number and nature of offices currently held by the candidate in public companies or organisations, and other significant commitments will be considered;

(iv) potential/actual conflicts of interest that may arise if the candidate is selected;

(v) in the case of a proposed appointment and election/re-election of an Independent Non-Executive Director, independence of the individual pursuant to the criteria set out in the Listing Rules;

(vi) in the case of a proposed election/re-election of an Independent Non-Executive Director, the number of years he/she has already served; and

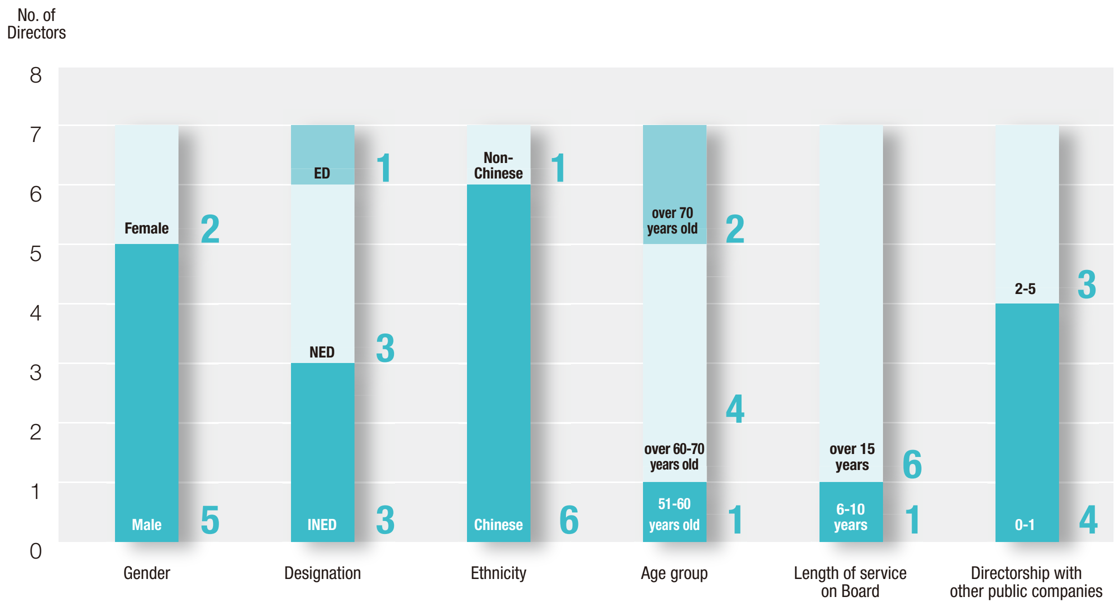
(vii) other factors considered by the Board to be relevant on a case by case basis.

Subject to the provisions in the Company's Bye-laws, if the Board recognises the need to appoint an additional Director, it will identify or select candidates recommended, with or without assistance from external agencies, pursuant to the criteria set out above. The Board deliberates and decides on the appointment. All appointments of Director should be confirmed by letter of appointment setting out terms and conditions of the appointment, which shall be approved by the Board; and where shareholders are required to vote on proposed appointment or electing/re-electing a Director, the Company shall disclose in the circular accompanying the notice of the relevant general meeting all the information of the individual required under the Listing Rules as appropriate.

Board Diversity

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

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



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

Roles and Responsibilities

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

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

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

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

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

Independence of Non-Executive Directors

The Company has received from each of the three Independent Non-Executive Directors a written annual confirmation of his independence and considers that each of the Independent Non-Executive Directors is independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules. Effective from 1 January 2019, these written confirmations also covered the immediate family members of each of the Independent Non-executive Directors. Among the Independent Non-executive Directors of the Company, none of them hold cross-directorships with other Directors.

Induction and Development

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

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

During the year ended 31 December 2018, the Directors participated in the following continuous professional development:

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

A: attending seminars, conferences and/or briefings on directors' duties and corporate governance, regulatory updates, and financial and economic development

B: giving speech at seminars and/or conferences

C: reading regulatory updates, newspapers, journals, and other business, financial and economic publications

Board Process

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

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

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

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

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

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

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

Directors' Attendance Records

During the year ended 31 December 2018, four regular Board meetings have been held. The attendance of each Director at these Board meetings, Board committee meetings and the 2018 AGM is set out below:

	Number of meetings attended/held			
	Board	Audit Committee	Remuneration Committee	2018 AGM
Executive Director:				
Mr. WANG Kin Chung, Peter	4/4	N/A	N/A	1/1
Non-Executive Directors:				
Ms. WANG KOO Yik Chun	1/4	N/A	N/A	1/1
Ms. MAK WANG Wing Yee, Winnie	4/4	3/3	1/1	0/1
Dr. WANG Shui Chung, Patrick	3/4	N/A	N/A	0/1
Independent Non-Executive Directors:				
Mr. LO Kai Yiu, Anthony	4/4	3/3	1/1	1/1
Mr. James Christopher KRALIK	4/4	3/3	1/1	0/1
Mr. Peter TAN	4/4	N/A	1/1	0/1

N/A: Not applicable

Delegation by the Board

Board Committees

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

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

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

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

Audit Committee

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

A majority of the members of the Audit Committee are Independent Non-Executive Directors. During the year ended 31 December 2018 and up to the date of this Annual Report, the members of the Audit Committee are:

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

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

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

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

The Board agrees with the Audit Committee's proposal for the re-appointment of KPMG as the Company's external auditor for 2019. The recommendation will be presented for the approval of shareholders at the 2019 AGM.

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

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

The attendance of each member at the Audit Committee meetings held during the year ended 31 December 2018 is set out in the "Directors' attendance records" section of this report.

During the year ended 31 December 2018, the Audit Committee held three meetings and the work performed is set out below:

(i) reviewed the 2018 annual budget and 2018 internal audit plan;

(ii) reviewed the draft annual report and audited financial statements of the Group for the year ended 31 December 2017 and recommended the same to the Board for approval;

(iii) made recommendation to the Board on the appointment of the external auditor at the 2018 AGM and considered the proposed external auditor's remuneration;

(iv) reviewed the draft interim report and unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2018 and recommended the same to the Board for approval;

(v) reviewed the audit service plan from the external auditor, reviewed their independence and discussed with them the nature and scope of audit for the year ended 31 December 2018 and their reporting obligations, considered and approved their terms of engagement;

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

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

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

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

(x) reviewed compliance and regulatory issues.

Remuneration Committee

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

A majority of the members of the Remuneration Committee are Independent Non-Executive Directors. During the year ended 31 December 2018 and up to the date of this Annual Report, the members of the Remuneration Committee are:

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

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

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

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

The attendance of each member at the Remuneration Committee meeting held during the year ended 31 December 2018 is set out in the "Directors' attendance records" section of this report.

During the year ended 31 December 2018, the Remuneration Committee held one meeting and the work performed is set out below:

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

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

Management Functions

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

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

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

Remuneration of Directors and Senior Management

The emoluments payable to the Directors are determined at arm's length on the basis of the responsibilities involved, time devoted, current financial position of the Company and the prevailing market conditions. At the 2018 AGM, the shareholders approved the authorisation of the Directors to fix their remuneration.

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

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

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

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

Notes:

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

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

The remunerations of members of Senior Management for the year ended 31 December 2018 are within the following bands:

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

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2018.

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

Accountability and Audit

Financial Reporting

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

The Directors acknowledge that they are responsible for preparing the accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the results and cash flow for the year then ended. In preparing the accounts for the year ended 31 December 2018, the Directors have:

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

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

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

A statement by the Auditor about their reporting responsibilities is included in the Independent Auditor's Report on pages 44 to 47.

Risk Management and Internal Controls

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

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

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

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

The Board, through the Audit Committee, has reviewed the adequacy and effectiveness of the risk management and internal control system for the year ended 31 December 2018. It is not aware of any major issue of concern and considers the risk management and internal control system adequate and effective. Appropriate measures have been taken to address areas identified for improvement.

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

Inside Information Policy

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

Internal Audit Function

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

During the year ended 31 December 2018, the tasks performed by internal audit department are as follows:

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

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

(iii) oversee the whistle-blowing mechanism.

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

Auditor's Remuneration

In 2018, remunerations paid to KPMG, the Company's external auditor, and its associates in respect of audit and non-audit services provided to the Group are set out below:

	2018 *HK$'000*
Annual audit fees	**2,674**
Tax services fees	**57**
Other services fees	**954**
Total	**3,685**

Company Secretary

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

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

Shareholders Relation

Shareholders Engagement and Communication

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

At the 2018 AGM:

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

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

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

At the 2019 AGM, the Chairman of the meeting will demand a poll on all the resolutions in accordance with the requirements of the Listing Rules. The poll results will be posted on the websites of the Stock Exchange and the Company on the same day of the 2019 AGM.

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

Shareholders' Rights and Investor Relations

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

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

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

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

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

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

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

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

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

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

2. Putting forward proposals at general meetings

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

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

(ii) not less than 100 shareholders.

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

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

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

3. Procedures to propose for election of Directors

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

4. Dividend Policy

The Board has adopted a dividend policy with an aim to set out the principle and factors to be considered when the Board declaring a dividend so as to allow the shareholders to participate in the Company's earnings whilst preserve the Company's liquidity for business development. The Company pursues a profit-based dividend policy. Pursuant to the policy, the Board has discretion, subject to Shareholders' approval where applicable, on whether to pay a dividend. Factors to be considered by the Board includes financial performance and results of operations, liquidity position and capital requirements, shareholders' interests, current and future operations, as well as dividends received from the Company's subsidiaries and associates, and any other factors that the Board may from time to time deem relevant.

Subject to the Bermuda Companies Act, the Company's Bye-laws and other applicable laws and regulations, the Company shall consider declaring dividends on a half-yearly basis from the Company's distributable profits for any particular financial year. In addition to the half-yearly dividends, the Company could also consider declaring special dividends from time to time.

The Board also has discretion on the form of payment, such as in cash or in scrip, and the payable date of dividends, subject to, inter alia, Bermuda Companies Act, the Company's Bye-laws, other applicable laws and regulations and, where applicable, Shareholders' approval.

5. Sending enquiries to the Board

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

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

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

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

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

2019 Annual General Meeting

The 2019 AGM will be held at Room 5A, 5th Floor, 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong on Monday, 3 June 2019 at 10:00 a.m. The notice of the 2019 AGM will be sent to all shareholders separately. The Chairmen of the Board, the Audit Committee and the Remuneration Committee or their delegates, as well as the external auditor of the Company will attend the 2019 AGM to answer questions from the shareholders.

The Important Dates to Shareholders

The important dates to shareholders in year 2019 are as follows:

Book close date for determining eligibility to attend and vote at the 2019 AGM:	Tuesday, 28 May 2019 to Monday, 3 June 2019, both days inclusive
2019 AGM:	Monday, 3 June 2019

Environmental, Social and Governance Report

1. Message from Chairman

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

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

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

2. About this Report

2.1 Overview

This is the ESG report of Tristate Holdings Limited (the "Company") and its subsidiaries (together, "Tristate" or the "Group") for the year ended 31 December 2018.

2.2 About Our Business

Founded in 1937, Tristate is a globally recognised manufacturer of premium fashion famous for its unrivalled ability to integrate cutting-edge technologies into the production of innovative fashions. As a vertically integrated garment manufacturer the principal business activities of the Group are branded product distribution and garment manufacturing for global customers, with major markets spanning across Europe, North America and Asia.

2.3 Scope of this Report

This report covers the period from 1 January 2018 to 31 December 2018, aligning with the Group's annual report. The main scope of this report covers the Group's manufacturing operations as listed in the table below. Same as last year, this ESG report covers our three factories in China and two factories in Thailand.

This year with the input from our stakeholders, we have expanded our disclosure on environmental KPIs to better reflect our performance regarding the newly identified material environmental aspects of the Group. For the five reported environmental KPIs, they cover all of our five factories with the exception of carbon emissions, which covers only Panyu, China (Factory No.1) as our first attempt to report on our carbon emissions.

Factory details:

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

2.4 Reporting Reference

This ESG report has been prepared in accordance with the HKEX Environmental, Social and Governance Reporting Guide ("ESG Guide"). For easy reference, a "HKEX ESG Content Index" that maps the information contained in the report to this ESG Guide is provided in Appendix I and the disclosed "Material Environmental KPIs" are summarised in Appendix II.

3. Our Value and Mission

3.1 Our Vision

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

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

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

Corporate Citizenship

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

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

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

3.2 Our Mission

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

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

In order to create quality products for customers to wear, resources consumption and emissions are inevitable along the value chain. As a responsible business, it is our job to reduce such adverse impact of our production facilities' on the environment.

Most of our clients are international apparel brands, and stakeholders around the globe have high expectations regarding the sustainability performance of both the brand itself and its supply chain. We, as part of the supply chain, play an important role in helping these large-scale international brands achieve their sustainability goals. Tristate – being a key third-party supplier to these entities – is therefore subject to regular client audits and site visits. Working with our customers, we ensure our compliance to relevant local environmental standards and promote improvement in resource efficiency, and contribute to the sustainable development of the fashion industry.

<u>Promoting Equality and Fairness</u>

As a garment manufacturer with production facilities in different parts of the world and thousands of employees employed, the impact we have on the community can never be underestimated, particularly in light of our commitment to corporate citizenry and responsible business practices.

In promoting equality and fairness, we strive to provide stable employment with fair compensation that could help lift people from potential poverty, improve living/working conditions in our production facilities by providing a safe working environment free of child and forced labour, and conduct our business in an ethical and honest manner.

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

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

For customers, the lifecycle of an apparel item starts from the day of purchase and eventually ends at the disposal. By improving the quality and craftsmanship of the products we produce, Tristate seeks to extend garment life span and thus, reduce waste at the end of the value chain.

Vision

Strive for the creation of a truly sustainable apparel industry

Being a corporate citizen and carry out our business responsibly

Mission

Facilitate green production along the value chain

Promote equality and fairness

Promise quality and safe products

Stakeholders

Employees

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

Customers

3.3 Our ESG Structure

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

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

Our ESG structure and the corresponding responsibilities are listed below:

Tristate ESG Steering Committee

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

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

Business Units

Group Sustainability Manager

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

Business Units

General Managers of Business Units

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

4. Stakeholder Engagement and Materiality Assessment

4.1 Stakeholder Engagement

To better understand the views and opinions of our external stakeholders, we have expanded our scope of stakeholder engagement by inviting some of our major customers to participate in this year's stakeholder engagement practice. Through interviews and surveys, we have gained a better understanding of their expectations on Tristate and how we can improve.

In the coming years, we will continue to review our stakeholder engagement practice and improve by expanding our stakeholder engagement practice to further include different stakeholders, so as to gain a more holistic view on topics material to the Group's ESG performance and to strive for continuous improvement.

4.2 Materiality Assessment

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

Aspects	Material Issues	Relevance to the Business
Environmental	Use of Electricity	Electricity use is essential to our business operations, from factories to offices to dormitories, from machine running to air-conditioning to lighting, etc.
	Use of Water	Given the nature of our manufacturing process, laundry plant accounts for the main source of water consumption; other uses include domestic use from our production facilities and the dormitories.
	Hazardous Waste	Given the nature of our manufacturing business, we do not generate significant amount of hazardous waste. Still, a limited amount of cleaning reagents are needed for our production.
	Greenhouse Gas Emissions (GHG)	The use of energy in our business operations, which includes purchased electricity and fuel, is the main source of greenhouse gas emissions of the Group.
	Use of Packaging Material	The decision on what packaging materials should be used is usually up to our clients, but we strive to reduce packaging material wastage within our control.
Social	Labour Standards	Forced labour and child labour are regarded as key issues and they are completely prohibited by law and in our Group's operation.
	Health and Safety	Occupational safety is another key issue to the manufacturing business. We are committed to providing our employees with a healthy and safe working environment.
	Anti-corruption	Integrity is a core value of the Group. We believe that this is the cornerstone of business development.
	Employee Benefits	A competitive compensation package is necessary to attract and retain talent. Our people being the foundation of our success.
	Product Safety	Product safety is essential for garment manufacturing. We adhere to the stringent requirements of our clients and ensure our products are safe to consumers.

To further enhance our ESG reporting and respond to the newly identified material environmental aspects of "Greenhouse Gas Emissions" and "Use of Packaging Material", we will be disclosing on Greenhouse Gas Emissions and Use of Packaging Material, on top of the three environmental KPI disclosures of Use of Electricity, Use of Water and Hazardous Waste generated last year. In the future, we will continue to update and monitor our KPI disclosure to reflect any change in our material aspects and regulatory requirements.

5. Facilitating Green Production along the Value Chain

5.1 Our Commitment

Understanding the serious challenges our environment is facing nowadays and the pressing needs of the industry to pay attention to, we try to contribute our share of responsibility along the value chain. Not only do we ensure compliance with rules and regulations regarding Resources Efficiency and Emissions Controls as required, we also endeavour to look for possible improvement initiatives that would exceed the requirements, where practical and economically viable.

In 2018, we are expanding our scope of environmental KPIs disclosure in line with the updates to our materiality assessment. We shall continue to enhance our reporting practice in the future in light of any regulatory changes or industry trends. This year we have included the electricity and water consumption intensities of our five factories. The intensity figures are normalised by the annual revenue of the five factories.

With the various on-going energy and water efficiency initiatives taken place, we observed in general a reduction in our utility consumptions. Details of measures adopted were described in the following sections.

5.2 Resources Efficiency

While we are subject to the already stringent environmental requirements of our clients, we still endeavour to outperform by implementing various resource conservation measures and initiatives to promote efficient consumption of energy, water and other materials along the production chain. For example, we successfully applied for and obtained LEED Silver Certification for our Hefei Factory in 2009, which demonstrated our determination and effort to achieve environmental excellence in our production.

5.2.1 Use of Energy

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

Use of Electricity (kWh)

Production Facility	2017	2018
Hefei China	3,231,900	**3,040,550**
Panyu China (Factory No.1)	3,711,761	**3,657,960**
Panyu China (Factory No.2)	1,139,960	**1,118,860**
Thailand (Factory No.1)	2,894,000	**3,077,000**
Thailand (Factory No.2)	1,163,352	**1,139,844**
Annual Total	12,140,973	**12,034,214**
Intensity (kWh/USD revenue)	0.0755	**0.0612**

In the reporting period, we continued to improve the energy efficiency of our factories through three main directions, namely (a) on-going maintenance/upgrade of equipment and facilities, (b) environmental data collection, and monitoring, and (c) awareness enhancement of employees.

(a) On-going Maintenance and Upgrade of Equipment and Facilities

Improvements/Initiatives in 2018

– installed an insulation layer on the rooftop of our factory in Panyu, which reduced the air-conditioning demand for the upper levels and hence reduced the consumption of energy;

– replaced part of the step-motor powered equipment with server-motor powered models, reducing the idle energy consumption by step-motors and improving occupational safety of our workers;

– worked with solar panel provider to investigate the feasibility and return on investment of installing solar panels in our Thailand factory, which is expected to cover over 70% of the factory's electricity consumption;

– continued to gradually replace lighting fixtures with LED, reducing our energy consumption while maintaining sufficient lighting for our workers; and

– conducted regular inspection of our boilers to ensure full compliance with the regulations and allow timely repair of boilers.

Highlighted Initiatives Carried Out in Previous Years

- upgraded to Variable Speed Drive (VSD) chillers to reduce annual energy consumption while maintaining reliable operation;
- replaced oil-fuelled boiler with LPG-fuelled models to improve fuel efficiency and reduce emissions;
- improved the insulation of steam pipes and air-tightness of indoor areas, which reduced the energy loss to the surrounding environment;
- installed solar lighting tubes at the ceiling of our Hefei factory. The flexible tubing harvests natural sunlight from reflective surfaces and transport the light indoor to provide natural daylight for workstations;
- installed water curtains paired with ventilation fans at our factories in Hefei and Panyu for more energy-efficient temperature control; and
- roof greening at several of our factory buildings with full or partial vegetation cover. The green roofs serve as insulation layers and help conserve energy through reducing the need for air conditioning.

(b) Environmental Data Collection and Monitoring

We have been collecting and monitoring material environmental data as part of our regular practice in all involved units. As an internal control measure, the internal audit team will also perform checking on the data collected to ensure its reliability. This facilitates more effective decision-making regarding potential resource-saving projects, reliable benchmarking of our performance in line with local government requirements to ensure compliance, and meeting clients' ever-increasing expectations on our resources consumption and emissions control.

(c) Awareness Enhancement of Employees

To raise the awareness of our employees, guidance is provided throughout the year regarding energy efficiency. Posters and internal communications are used to promote energy conservation at the workplace and inform employees our latest environmental policies and measures.

To further improve environmental performance of the production facilities, we organise workshops and seminars for factories' management to reflect on the existing work done and way forward.

5.2.2 Use of Water

As our garment manufacturing does not include the process of dyeing and bleaching of fabric, the major water consumption in our operation comes from the water used for finished garment laundry and steam boilers. Besides our manufacturing activities, there are also water consumption arising from the dormitories at our production facilities.

In terms of water management, we seek to reduce our consumption through behavioural changes and hardware maintenance. In the year, we have:

Improvements/Initiatives in 2018

- repaired and replaced leaking water inlet and fire service pipes;
- ceased to use the leaking underground water system at our Thailand factory and switched to municipal water, which avoided further water leakage from the aged underground water piping;
- enhanced control of overtime shifts to better utilise the boilers and reduce both water and energy consumption from nightshifts; and
- increased site inspections to identify issues more timely.

Highlighted Initiatives Carried Out in Previous Years

- reduced flushing water consumption by retrofitting existing toilets with dual-flush capability and sensor controls;
- replaced conventional water fixtures with newer models with low flow regulators;
- installed water-softening filters for boilers to improve flow rate and efficiency; and
- reduced pressure of water pipes in factories to reduce water use and leakages through the burst of pipes.

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

Use of Water (m^3)

Production Facility	2017	2018
Hefei China	168,422	**132,038**
Panyu China (Factory No. 1)	60,017	**43,544**
Panyu China (Factory No. 2)	40,555	**34,715**
Thailand (Factory No. 1)	38,296	**38,547**
Thailand (Factory No. 2)	12,080	**12,607**
Annual Total	319,370	**261,451**
Intensity (m^3/USD revenue)	0.0020	**0.0013**

5.2.3 Use of Packaging Material

Packaging material is typically subject to client needs and specifications, leaving us with very limited control over it. While we have minimal control over the types of materials used for packaging, we still try to manage the issue by preventing any over-order of packaging materials. For example, we use standard sizes carton box and polybags in our Thailand factory to avoid unused stock size differences.

As our first attempt to report on our packaging material consumption, we focus on the carton and plastic bags used, which are the major types of packaging used in our production.

Use of Packaging Material (Plastic bags and Carton) in 2018 (tonnes)

Production Facility	2018
Hefei China	**242.9**
Panyu China (Factory No.1)	**122.3**
Panyu China (Factory No.2)	**135.0**
Thailand (Factory No.1)	**87.8**
Thailand (Factory No.2)	**83.6**
Annual Total	**671.6**

5.3 Emissions Control

Given the nature of our production, we do not produce significant air emissions, hazardous waste or wastewater discharge. We ensure compliance with the relevant regulatory requirements and minimise our emissions where reasonably practicable. Following the requirements of our clients, for example their MRSL (Manufacturing Restricted Substances List), we have developed guidelines to ensure that chemicals listed are not used during our production processes.

5.3.1 Greenhouse Gas Emissions

As part of the global trend on sustainability, the increasing needs of our clients' and investors' expectation on sustainability performance, it is important that we take an initial step to understand our GHG emissions as a corporation.

During garment manufacturing, the major source of GHG emissions is the energy use for production. Over the years, we strived to improve the energy efficiency of our production through various initiatives and hardware improvements, which as a result lowers our GHG emissions as well. For more details on the energy-efficiency improvements, please refer to Section 5.2.1 Use of Energy.

To better understand the carbon emissions profile at our production facilities, we have started to evaluate the GHG emissions of our business. As the first step, we appointed an external consultant to conduct a pilot carbon audit at Factory No.1 of Panyu China for year 2018. Through the carbon audit, we assessed the carbon emissions of the factory and explored further reduction opportunities. We are planning to extend the practice to our other factories in coming years, hoping to set the baseline of our carbon emissions with an ultimate aim to set forth planning measures on emissions reductions and efficiency management.

Greenhouse Gas Emissions in 2018

Production Facility	Scope 1 (tCO_2e)	Scope 2 (tCO_2e)
Panyu China (Factory No.1)	1,168	1,928

5.3.2 Air Emissions

Given the nature of garment manufacturing, we do not have significant air emissions from our production processes. Majority of our air emissions come from the use of boilers for steam production and the use of back-up generator sets at our production facilities.

Since 2012, we have switched to natural gas or LPG in all four of our factories with on-site boilers, which significantly reduced our air emissions compared to the old diesel-boilers. Besides switching the fuel, we also appoint external agencies to perform regular assessment of the air emissions of our boilers and perform timely maintenance when problems are identified.

5.3.3 Wastewater Discharge

During our production process, insignificant amount of wastewater pollutant is generated from the laundry of finished products. Complying with local regulations, we properly manage and monitor our wastewater discharge.

While on-site water treatment is not required in our Thailand and Panyu factories, the wastewater produced in our Hefei factory is treated on-site before discharge. Operated by a dedicated team, tertiary waste water treatment process including sedimentation and biological treatment is adopted to ensure that the effluent complies with relevant discharge standards. In the year, we updated the online monitoring system which is used to monitor the effluent quality. To the best of our knowledge, no material violation of discharge standards was recorded during the year.

5.3.4 Waste Management

General Waste

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

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

Hazardous Waste

Our production process involves main the cutting, sewing, finishing and packaging of garments, with no dyeing or bleaching process involved. Also, most of the raw materials are purchased from qualified fabric suppliers designated by clients and hence we do not generate significant hazardous waste in the manufacturing process.

The common hazardous waste we produce, constitutes old light tubes, empty chemical containers and expired chemicals. To reduce the generation of waste light tubes, we have been progressively replacing the lighting system in our factories with LED tubes, which are more durable and energy efficient. For the cleaning reagent, we would determine if any eco-friendly substitutes are available, where practical.

We have appointed qualified third-party companies to properly handle and dispose of the limited hazardous waste generated. Relevant disposal amounts were well documented, ensuring that the process complies with the local laws and regulations on hazardous waste disposal.

Disposal of Hazardous Waste (in tonnes)

Type of Hazardous Waste	2017	2018
Old Light Tubes	0.30	**0.95**
Empty Chemical Containers	1.83	**1.38**
Expired Chemicals	Not applicable	**0.90**

5.4 The Environment and Natural Resources

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

5.5 Regulatory Compliance

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

6. Promoting Equality and Fairness

As a corporate citizen, we care about the welfare of the community and the people within. Our production facilities provide employment opportunities for the local areas, and help to boost the local economy and living standards. It is our goal to provide fair jobs for all employees, and affect positively labour practices in areas we operate in by setting ourselves as role models. As such, we strictly prohibit unethical behaviours and any form of unlawful labour. To the local community, we seek to give back where we take. Community engagement is encouraged to nurture a harmonious development in the local areas.

6.1 Employment and Labour Practices

Our talents are the most valuable assets to the Group. Through transparent recruitment practice and competitive remuneration packages, we seek to attract and retain high-calibre talents to strengthen the core competency of the Group. In the management of our talents, we adheres to all relevant local laws and regulations including Hong Kong's Employment Ordinance and the Labour Law of the People's Republic of China, etc.

6.1.1 Fair Employment

Recruitment and Promotion

Tristate is an equal opportunity employer and treats staff fairly and justly by adopting an even-handed approach. We embrace diversity and provide equal employment opportunities to all staff and job applicants, irrespective of their gender, race, sexual orientation, age, creed, marital status, pregnancy and disability. Staff appointments and promotions are determined by relevant merits and performance, and we prohibit any discriminatory behaviours in all human resources activities including recruitment, training, transfer, promotion and termination.

Benefits Entitlement

To motivate our employees, we strive to provide rewarding remuneration and welfare package to our staff. Our employee remuneration is on par with market level and through annual appraisal adjustments are made regularly to reward high-performing employees. Provision of mandatory provident fund, pension, paid leaves, medical insurance, and a range of other welfare benefits is also guaranteed in compliance with relevant labour laws and regulations.

Encouraging Communication

The opinions of our staff is a great driver of improvement. Therefore we encourage open communication between management and employees and employees may confer local issues with management via various channels or discuss with their immediate supervisor or senior management team if necessary.

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

6.1.2 Health and Safety

We place high importance in the health and safety of our employees. As a garment manufacturer, our production processes are mostly indoor involving tasks like cutting, sewing, finishing and packaging of garments. While the nature of our work is subject to low occupational safety risk, we ensure compliance to all relevant occupational health and safety legislation.

To provide our employees with a comfortable working environment, our work areas are adequately lit with proper ventilation, along with basic necessities like potable water, sanitary facilities, fire protection device and first-aid boxes.

To ensure the safety of our working environment, regular evaluations of production and living areas are performed to identify and clear any potential safety hazards with appropriate control measures. Procedures to minimise workplace safety hazards include periodic machinery safety check, physical and chemical hazard identification and control, facility hygiene control, emergency preparedness for accidents and incidents, safety trainings for employees, and tracking of health and safety statistics.

During the reporting period, no severe work-related injury was noted and we were not aware of any material non-compliance with laws and regulations regarding occupational health and safety.

6.2 Development and Training

The capability of employees is a key factor to the Group's success. Through various orientation seminars and on-the-job trainings, we equip our employees with latest industry knowledge and help build their expertise to enhance the market-competitiveness of the Group. During the reporting period, training provided cover topics including industry knowledge, technology and product knowledge, industry quality standards and work safety standards.

6.3 Labour Standards

The Group abides by the relevant labour laws and regulations and prohibit the employment of child or forced labour in all of its operations. During the recruitment process, identification documents of applicants are checked to ensure no underage labour is hired.

We also respect the basic rights of our employees and prohibits any unfair treatment of our employees. To protect their rights, a Grievance Policy is in place to provide them with a formal mechanism to voice their concerns to higher level management.

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

6.4 Anti-corruption

The Group adheres to the highest ethical standards and upholds the elements of integrity and accountability in its daily operation. We abide by applicable laws and regulations including the Prevention of Bribery Ordinance in Hong Kong, and have zero tolerance against any corruption or fraudulent behaviour within our business.

We expect our employees at all levels to behave with integrity, impartiality and honesty. Through our Staff Handbook, we communicate to employees our stance towards bribery and provide guidelines to them regarding the acceptance of gifts, conflict of interest and other misconduct. Anti-corruption guidelines are also provided to strengthen their knowledge in relation to the prevention of bribery, helping them to identify any possible immoral acts or violations.

To encourage employees to raise their concerns about possible misconduct, a Whistle-blowing Policy with clearly documented procedures is in place to provide employees with a confidential escalation channel. Every report received will be thoroughly assessed by the Internal Audit Department followed by internal investigation, referral to Audit Committee or even relevant public bodies if necessary. All information received shall be kept confidential and the whistle-blower shall be protected from any harassment or retaliation.

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

6.5 Community Investment

The Group understands that the development of the community where we operate is crucial to the sustainable growth of our business. We therefore strive to contribute to society and help those around us flourish. As part of our community effort, we managed some of our employees as volunteers to pay visits and bring gifts to underprivileged families from time to time. As a recognition of our volunteering work and donations, we have been awarded the title of Caring Company since the year of 2015.

7. Promising quality and safe products

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

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

7.1 Supply Chain Management

7.1.1 Supplier Selection Policy

With most of our customers being international premium apparel brands, there are high expectations on the supply chain of our business. We assess and evaluate not only our suppliers' capability, quality, compliance status, pricing and certifications, but also suppliers' ESG performance with extra attention. In particular we pay attention to their regulatory compliance on environment, employment and labour as well as health and safety. Only those suppliers who comply with our requirements in product safety and quality, business reputation and other indicators mentioned above are eligible to be appointed by the Group.

Suppliers are also encouraged to include green considerations in their production. We expect fair and equal employment practices from our suppliers and have zero tolerance regarding any form of child or forced labour and discrimination.

7.1.2 Prohibiting Unethical Behaviour

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

7.2 Product Responsibility

7.2.1 Product Safety and Quality

We give top priority to the product quality and safety offered to our customers. We continually strive to meet our customer's expectations on products and services with high satisfaction. Our Factory No.1 in Panyu has obtained ISO9001 certification, which showcase our attention to product quality.

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

7.2.2 Customer Feedback Channels

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

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

Appendix I: HKEX ESG Content Index

	Aspects	Section	Remarks
A	***Environmental***		
A1	**Emissions**	5.3	–
A1.1	The types of emissions and respective emissions data.	5.3.2	Given the nature of garment manufacturing, we do not have significant air emissions from our production processes.
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	5.3.1	–
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	5.3.4	–
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	5.3.4	Non-hazardous waste is not considered as material to the Group's operation. We ensure compliance with local requirements on waste disposal and will review relevant data disclosure in the future.
A1.5	Description of measures to mitigate emissions and result achieved.	5.3	–
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	5.3.4	–
A2	**Use of Resources**	5.2	–
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	5.2.1	–
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	5.2.2	–
A2.3	Description of energy use efficiency initiatives and result achieved.	5.2.1	–
A2.4	Description of whether any issue exists in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	5.2.2	–
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	5.2.3	–
A3	**The Environment and Natural Resources**	5.4	Environmental issues faced in our business are discussed in section 5.2 and 5.3.
A3.1	Description of the significant impacts of activities on the environment and natural resources and the action taken to manage them.	5.4	

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

Appendix II: Material Environmental KPIs

	Unit of Measurement	2017 Annual Total	2018 Annual Total
Use of Electricity	**kWh**	12,140,973	12,034,214
Electricity Intensity	**kWh/USD revenue**	0.0755	0.0612
Use of Water	**m^3**	319,370	261,451
Water Intensity	**m^3/USD revenue**	0.0020	0.0013
Disposal of Hazardous Waste			
Old Light Tubes	**tonnes**	0.30	0.95
Empty Chemical Containers		1.83	1.38
Expired Chemicals		Not applicable	0.90
Greenhouse Gas Emissions at Panyu, China (Factory No.1)	**tonnes CO_2e**	New disclosure in 2018	3,096
Use of Packaging Material	**tonnes**	New disclosure in 2018	671.6

Directors' and Senior Management's Profiles

Directors

Executive Director

Mr. WANG Kin Chung, Peter, *BSc, MBA*, aged 65, became the Company's President and Chief Executive Officer in 1999 and was redesignated as the Chairman and Chief Executive Officer of the Company since 2001. He is also the Chairman of the Share Option Committee of the Company and a director of certain subsidiaries of the Company. Mr. Wang has about 35 years of experience in the garment industry and is responsible for the overall strategic planning and business development of the Company. Mr. Wang obtained a BSc degree in Industrial Engineering from Purdue University in Indiana, USA and an MBA degree from Boston University, USA. He is a non-executive director and a member of the audit committee of Johnson Electric Holdings Limited and the chairman and managing director of Hua Thai Manufacturing Public Company Limited (formerly listed on The Stock Exchange of Thailand).

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

Non-Executive Directors

Ms. WANG KOO Yik Chun, aged 101, became Co-chairlady and Honorary Co-chairlady in 1999 and 2001 respectively and was then redesignated as the Honorary Chairlady of the Company since 2002. She is the founder of Hwa Fuh Manufacturing Company (Hong Kong) Limited and its subsidiaries. She is also the honorary chairman and a non-executive director of Johnson Electric Holdings Limited, a former director of Hua Thai Manufacturing Public Company Limited (formerly listed on The Stock Exchange of Thailand), and a director of certain subsidiaries of the Company. Ms. Koo is the mother of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, Ms. MAK WANG Wing Yee, Winnie and Dr. WANG Shui Chung, Patrick, Directors of the Company.

Ms. MAK WANG Wing Yee, Winnie, *BSc*, aged 72, obtained her BSc degree from Ohio University, USA and became a Non-Executive Director of the Company in April 1999. She is also a member of the Audit Committee, the Remuneration Committee and the Share Option Committee of the Company. Ms. Wang is a director of two subsidiaries of the Company. She is also the vice chairman of Johnson Electric Holdings Limited. Ms. Wang is a daughter of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company, and a sister of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, and Dr. WANG Shui Chung, Patrick, a Director of the Company.

Dr. WANG Shui Chung, Patrick, *JP, BSc, MSc*, aged 68, obtained his BSc and MSc degrees in Electrical Engineering and received an Honorary Doctorate of Engineering from Purdue University in Indiana, USA. He became a Non-Executive Director of the Company in April 1999 and is a director of a subsidiary of the Company. Dr. Wang is the chairman and chief executive of Johnson Electric Holdings Limited, and an independent non-executive director of VTech Holdings Limited. He is also a member of the Hong Kong Sanatorium & Hospital's Clinical Governance Committee. Dr. Wang previously served as a non-executive director of The Hongkong and Shanghai Banking Corporation Limited, and the chairman and a director of the Hong Kong Applied Science and Technology Research Institute Company Limited. Dr. Wang is a son of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company, and a brother of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, and Ms. MAK WANG Wing Yee, Winnie, a Director of the Company.

Independent Non-Executive Directors

Mr. LO Kai Yiu, Anthony, aged 70, joined the Company in June 1998 as an Independent Non-Executive Director. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Lo is qualified as a chartered accountant with the Canadian Institute of Chartered Accountants and is a member of the Hong Kong Institute of Certified Public Accountants. In addition to over 8 years of professional accounting experience, he has over 35 years of experience in investment banking and other financial services. Mr. Lo was an independent non-executive director of The Taiwan Fund, Inc. He is the chairman of Shanghai Century Capital Limited and serves as an independent non-executive director of a number of listed public companies, including Convenience Retail Asia Limited, Lam Soon (Hong Kong) Limited and Playmates Holdings Limited.

Mr. James Christopher KRALIK, aged 53, was appointed as an Independent Non-Executive Director of the Company in April 2002. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee of the Company. Mr. Kralik is the managing director of Linden Street Capital Limited, a privately held investment company focused on Greater China-based investment opportunities. He previously served as the chief executive officer of VTech Telecommunications Limited, built and led a Hong Kong-based group of media and entertainment businesses, and was a management consultant with McKinsey & Company, Inc. Mr. Kralik is a graduate of Harvard College and the Harvard Business School.

Mr. Peter TAN, aged 63, was appointed as an Independent Non-Executive Director and a member of the Remuneration Committee of the Company in January 2011. He is an independent non-executive director of The Sincere Company, Limited. Mr. Tan is currently the chief executive officer of TLC Capital Management Pte Ltd., an investment company and a director of Titan Dining Holdings Pte. Ltd., a non-listed company. Prior to that, he was the chief executive officer of an investment company namely Stone Canyon Pte Ltd; and the chief executive officer of Knowledge Universe Pte Ltd, a leading global private education organisation with a network of more than 3,000 locations worldwide. Before joining Knowledge Universe in 2013, Mr. Tan has more than 17 years' experience in the fast food industry. Mr. Tan was the executive vice president and the chief executive officer of Asia Pacific division of Burger King Corporation up to 2012. Before joining Burger King Corporation in 2005, Mr. Tan had served McDonald's Corporation for 10 years and was the senior vice president and the president of its Greater China division, responsible for strategic growth of the business and management of all key functions in the region. Prior to that, Mr. Tan was the vice president of Citibank Singapore, Private Banking Group. He holds a BA degree in Accounting and Finance from the Washington State University, an MBA degree from the Kellogg School of Management at Northwestern University and was the chairman of the Kellogg Alumni Council (Asia).

Senior Management

Mr. Joshua Bruce PERLMAN, aged 49, joined the Group in 2003 and is the Managing Director of the Retail and Wholesale division of the Group's wholly-owned subsidiary, 338 Fashion Co. Limited. Mr. Perlman is also the President of our Men's Smart Casual Brand – C.P. Company in North America. He has over 25 years of experience in China working with renowned consumer lifestyle brands. A graduate of both Tulane University and the Johns Hopkins University Center for Chinese and American Studies in Nanjing, Mr. Perlman is a native of New York City, USA, and is fluent in Mandarin, Chinese.

Ms. SUN Lin, Sophie, aged 43, President of China Retail Business including Cissonne and C.P. Company, joined the Group in 2006. Ms. Sun was instrumental in the creation of Cissonne in 2014, the first ladies' premium brand of the Group. She is also the Director of Product Development and Central Sourcing of the Group. Ms. Sun holds a Master Degree in Business Administration from Fudan University, Shanghai.

Mr. Lorenzo OSTI, aged 45, joined the Group in 2015. He is the President of C.P. Company, a smart casual brand of the Group. Mr. Osti is the son of the brand founder. He has over 20 years of experience in the brand business and marketing. Mr. Osti graduated with honors in DAMS – Mass Communication.

Ms. MA Jingyan, Jane, aged 46, Managing Director of the Contract Manufacturing Business Unit, joined the Group in 2001. Ms. Ma has over 17 years of experience in the garment industry primarily on the marketing, sales and product development side for both UK and USA markets. She holds a Master Degree in Business Administration from Fordham University, New York.

Ms. ZHANG Xiaofang, Phyllis, aged 45, Managing Director of the third party fulfillment business. She is also responsible for the supply chain management of all internal brands. Ms. Zhang joined the Group in 2002 and has over 17 years of management experience in the garment industry. She holds a Master Degree in Business Administration from Peking University.

Ms. CHAN Man Ying, Vivian, aged 43, Chief Financial Officer, joined the Group in February 2019. Ms. Chan has more than 20 years of experience in finance and accounting. Prior to joining the Group, she was the Chief Financial Officer of a company listed in Hong Kong. In addition, she possesses professional accounting and auditing experience with Deloitte Touche Tohmatsu. Ms. Chan holds a Bachelor Degree of Business Administration in Accounting from Hong Kong University of Science & Technology. She is a fellow member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants.

The Board of Directors (the "Board") of Tristate Holdings Limited (the "Company") presents its report together with the audited financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2018.

Principal Activities and Analysis of Operations

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

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

Results and Appropriations

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss on page 48.

No interim dividend was paid for the six months ended 30 June 2018 (2017: Nil).

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

Business Review

The business review of the Group for the year ended 31 December 2018 is set out in the section headed "Management Discussion and Analysis" on pages 6 to 12 of this Annual Report.

Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2018 is set out on page 3.

Property, Plant and Equipment

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

Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2018 are set out in Note 41 to the consolidated financial statements.

Associate

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

Share Capital

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

Reserves

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

Distributable Reserves

As at 31 December 2018, the reserves of the Company amounted to HK$447,351,000 (2017: HK$447,127,000) and retained earnings amounted to HK$463,732,000 (2017: HK$455,668,000); of which HK$894,752,000 (2017: HK$886,688,000) were available for distribution to equity shareholders of the Company as calculated in accordance with the Bermuda Companies Act 1981.

Share Options

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

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

A. The 2007 Share Option Scheme

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

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

Movements in the share options under the 2007 Share Option Scheme during the year ended 31 December 2018 were as follows:

Date of grant	Participant	Number of share options: At 1 January 2018	Lapsed during the year	At 31 December 2018	Exercise price per share	Exercisable period
3 June 2013	Employees	104,000	(104,000)	**–**	HK$3.92	3 June 2013 – 2 June 2018
	(in aggregate)	104,000	(104,000)	**–**	HK$3.92	3 June 2014 – 2 June 2018
		104,000	(104,000)	**–**	HK$3.92	3 June 2015 – 2 June 2018
		104,000	(104,000)	**–**	HK$3.92	3 June 2016 – 2 June 2018
9 June 2014	Employees	106,000	–	**106,000**	HK$3.10	9 June 2014 – 8 June 2019
	(in aggregate)	106,000	–	**106,000**	HK$3.10	9 June 2015 – 8 June 2019
		106,000	–	**106,000**	HK$3.10	9 June 2016 – 8 June 2019
		106,000	–	**106,000**	HK$3.10	9 June 2017 – 8 June 2019
8 June 2015	Employees	135,000	–	**135,000**	HK$2.97	8 June 2015 – 7 June 2020
	(in aggregate)	135,000	–	**135,000**	HK$2.97	8 June 2016 – 7 June 2020
		135,000	–	**135,000**	HK$2.97	8 June 2017 – 7 June 2020
		135,000	–	**135,000**	HK$2.97	8 June 2018 – 7 June 2020
9 May 2016	Employees	141,000	–	**141,000**	HK$2.28	9 May 2016 – 8 May 2021
	(in aggregate)	141,000	–	**141,000**	HK$2.28	9 May 2017 – 8 May 2021
		141,000	–	**141,000**	HK$2.28	9 May 2018 – 8 May 2021
		141,000	–	**141,000**	HK$2.28	9 May 2019 – 8 May 2021
	Total	1,944,000	(416,000)	**1,528,000**		

Notes:

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

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

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

B. The 2016 Share Option Scheme

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

Purpose	:	To provide the participants who have been granted options under the 2016 Share Option Scheme with the opportunity to acquire proprietary interests in the Company, to encourage participants to work towards achieving the relevant performance targets in order to enhance the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, and to retain participants who achieve such performance targets.
Participants	:	The directors, officers and employees of any member of the Group as determined by the Board from time to time.
Total number of shares available for issue and the percentage of the issued share capital that it represents as at the date of this report	:	The maximum number of shares which may be issued upon exercise of all options to be granted under the 2016 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at 6 June 2016, the date of 2016 AGM approving and adopting the 2016 Share Option Scheme. The total number of shares available for issue under the 2016 Share Option Scheme is 25,148,725 shares, representing 9.26% of the issued share capital of the Company as at the date of this report.
Maximum entitlement of each participant	:	Not exceeding 1% of the shares of the Company in issue in any 12 months period.
Period within which the shares must be taken up under an option	:	The period within which the options must be exercised will be specified by the Board at the time of grant. This period must expire no later than 10 years from the relevant date of grant.
Minimum period for which an option must be held before it can be exercised	:	At the time of grant of the options, the Board may specify any minimum period(s) for which an option must be held before it can be exercised. The 2016 Share Option Scheme does not contain any such minimum period.
Amount payable on acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	:	HK$1.00 (or its equivalent), to be paid within 10 business days from the date on which the letter containing the offer is issued to that participant.
Basis of determining the exercise price	:	The subscription price for the shares shall be such price determined by the Board at its absolute discretion and notified to the participant in the offer and shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant.
Remaining life of the 2016 Share Option Scheme	:	No options may be granted under the 2016 Share Option Scheme on or after the date of the tenth anniversary of the adoption of the 2016 Share Option Scheme.

Movements in the share options under the 2016 Share Option Scheme during the year ended 31 December 2018 were as follows:

		Number of share options				
Date of grant	**Participant**	**At 1 January 2018**	**Granted during the year**	**At 31 December 2018**	**Exercise price per share**	**Exercisable period**
5 June 2017	Employees (in aggregate)	239,000	–	**239,000**	HK$1.68	5 June 2017 – 4 June 2022
		239,000	–	**239,000**	HK$1.68	5 June 2018 – 4 June 2022
		239,000	–	**239,000**	HK$1.68	5 June 2019 – 4 June 2022
		239,000	–	**239,000**	HK$1.68	5 June 2020 – 4 June 2022
25 June 2018 *(Notes 2 & 3)*	Employees (in aggregate)	–	264,000	**264,000**	HK$1.75	25 June 2018 – 24 June 2023
		–	264,000	**264,000**	HK$1.75	25 June 2019 – 24 June 2023
		–	264,000	**264,000**	HK$1.75	25 June 2020 – 24 June 2023
		–	264,000	**264,000**	HK$1.75	25 June 2021 – 24 June 2023
	Total	956,000	1,056,000	**2,012,000**		

Notes:

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

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

3. The closing price of the shares of the Company on 22 June 2018, being the business day immediately before the date on which the options were granted, as quoted on the Stock Exchange, was HK$1.74.

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

5. The fair value of the options granted during the year determined using the Trinomial valuation model was HK$0.61 per option. The significant inputs into the model are as follows:

Share price at the grant date	HK$1.75
Exercise price	HK$1.75
Dividend yield	0%
Volatility	38%
Annual risk-free interest rate	2%

The volatility at the grant date, which measured the standard deviation of expected share price returns, is based on statistics of 1,260 days historical volatilities of comparable companies within the industry.

The aggregate fair value of the options granted during the year amounted to HK$645,000 is to be recognised as employment benefit over the vesting periods together with a corresponding increase in equity. Such fair value is subject to a number of assumptions and with regard to the limitation of the Trinomial valuation model.

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

Bank Borrowings

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

Donations

Charitable and other donations made by the Group during the year amounted to HK$150,000 (2017: HK$123,000).

Directors

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

Executive Director:

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

Non-Executive Directors:

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

Independent Non-Executive Directors:

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

For compliance with Code Provision A.4.2 set out in the Corporate Governance Code of the Listing Rules and in accordance with Bye-Laws 85 and 86 of the Company's Bye-Laws, Ms. MAK WANG Wing Yee, Winnie and Mr. James Christopher KRALIK will retire by rotation and, being eligible, offer themselves for re-election as Directors at the forthcoming 2019 AGM.

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of independence and considers that each of the Independent Non-Executive Directors is independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules. Effective from 1 January 2019, these written confirmations also covered the immediate family members of each of the Independent Non-executive Directors. Among the Independent Non-executive Directors of the Company, none of them hold cross-directorships with other Directors.

Biographical Details of Directors and Senior Management

The followings are changes in Directors' biographical details since the date of the Company's interim report for the six months ended 30 June 2018 issued in September 2018, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

Mr. WANG Kin Chung, Peter
Cessation of appointment
– Committee vice chairman of The Anhui Fraternity Association (Hong Kong) Limited
New appointment
– Member of Council of Institute of New Structural Economics at Peking University

Mr. Peter TAN
New appointment
– Director of Titan Dining Holdings Pte. Ltd.

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

Brief biographical details of the Directors and the Senior Management of the Group as at the date of this Annual Report are set out on pages 33 and 34.

Directors' Interests in Securities

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 of the Listing Rules, were as follows:

Interests in shares of the Company

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

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

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

Notes:

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

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

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

Save as disclosed above, as at 31 December 2018, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Stock Exchange pursuant to the Model Code.

Arrangement to Acquire Shares or Debentures

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

Equity-Linked Agreements

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

Directors' Service Contracts

None of the Directors proposed for re-election at the 2019 AGM has a service contract with the Group, which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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

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

Directors' Interests in Competing Businesses

During the year ended 31 December 2018, none of the Directors had any interest in business apart from the Group's businesses which competed, or was likely to compete, either directly or indirectly, with the Group's businesses under Rule 8.10 of the Listing Rules.

Substantial Shareholders

As at 31 December 2018, the following persons (other than the Directors or the chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register kept by the Company pursuant to Section 336 of the SFO:

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

Note:

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

Save as disclosed above, as at 31 December 2018, no other person (other than a Director or the chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

Emolument Policy

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

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

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

Details of the emoluments of the Directors for the year ended 31 December 2018 are set out in Note 12 to the consolidated financial statements.

Permitted Indemnity Provision

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

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

Retirement Benefit Schemes

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

Management Contract

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

Major Customers and Suppliers

The percentage of revenue from sales of goods or rendering of services attributable to the Group's largest customer and the five largest customers combined were 16% and 58%, respectively.

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

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

Continuing Connected Transactions

On 13 February 2017, Gold Flower Limited ("Gold Flower"), a wholly-owned subsidiary of the Company, as tenant, entered into a tenancy agreement (the "Agreement") with TDB Company Limited ("TDB"), as landlord, for the leasing of the premises at Ground Floor, 2nd Floor, 4th to 7th Floors, 9th to 10th Floors, and a portion of flat roofs on 3rd Floor, Tak Tai Industrial Building, 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong (the "Building") for a term of two years from 1 April 2017 to 31 March 2019.

On 26 March 2018, Gold Flower entered into the supplemental tenancy agreement to the Agreement (the "Supplemental Agreement") with TDB to surrender the 2nd Floor and take over the 8th Floor of the Building so as to reduce the area rented and the monthly rent payable with effect from 15 March 2018 with all other terms and conditions of the Agreement remaining unchanged. The premises, after the change, comprise: Ground Floor, 4th to 10th Floors, and a portion of flat roofs on 3rd Floor of the Building (the "Premises").

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

Details of the Agreement (as supplemented by the Supplemental Agreement) were as follows:

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

The annual rent (the "Annual Cap") paid or payable by Gold Flower under the Agreement (as supplemented by the Supplemental Agreement) for each of the three financial years ending 31 December 2019 was as follows:

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

The terms of the Agreement (as supplemented by the Supplemental Agreement) were arrived at after arm's length negotiations between Gold Flower and TDB, and on the basis of the valuation made by an independent property valuer.

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

The Independent Non-Executive Directors have reviewed the Continuing Connected Transactions and confirmed that during the year such transactions have been entered into:

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

(ii) on normal commercial terms; and

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

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

Related Party Transactions

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

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

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

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

Pre-Emptive Rights

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

Purchase, Sale or Redemption of Shares

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

Public Float

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

Corporate Governance Code

Throughout the year ended 31 December 2018, the Company has complied with all the Code Provisions set out in the CG Code, except for the deviation from Code Provisions A.2.1 and A.5.

Considered reasons for the deviation from Code Provisions A.2.1 and A.5 as well as further information of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 13 to 20.

Auditor

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

On behalf of the Board

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Hong Kong, 25 March 2019

KPMG

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

(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Tristate Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 48 to 92, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

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

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

The Key Audit Matter

In view of the loss sustained by the Group for the year ended 31 December 2018, management considered that indicators of potential impairment of PP&E, leasehold land and land use rights existed as at 31 December 2018.

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

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

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

How the matter was addressed in our audit

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

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

Key Audit Matters (Continued)

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

The Key Audit Matter (Continued)

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

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

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

How the matter was addressed in our audit (Continued)

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

Assessment of potential impairment of a trademark and licence rights

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

The Key Audit Matter

The carrying value of the Group's trademark and licence rights as at 31 December 2018 were HK$176 million and HK$316 million respectively.

Management performs impairment assessments of the licence rights when indicators of potential impairment are identified. In addition, impairment assessment on the trademark which has an indefinite useful life is performed annually whether or not there is any indication of impairment.

Management performs impairment assessments by comparing the carrying values of the trademark and licence rights with their estimated value in use, which are calculated using discounted cash flow forecasts, to determine if any impairment is necessary at the reporting date.

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

How the matter was addressed in our audit

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

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

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

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ms. HUI Sau Yee, Jenny.

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

25 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 (Note) HK$'000
Revenue	4	**2,578,322**	1,922,706
Cost of sales		**(1,958,175)**	(1,500,872)
Gross profit		**620,147**	421,834
Other income and other gains	5	**3,430**	30,990
Selling and distribution expenses		**(208,697)**	(98,939)
General and administrative expenses		**(471,364)**	(421,218)
Loss from operations	6	**(56,484)**	(67,333)
Finance income	7	**3,574**	4,457
Finance costs	7	**(17,928)**	(4,310)
Loss before taxation		**(70,838)**	(67,186)
Income tax (charge)/credit	8	**(8,995)**	2,206
Loss for the year		**(79,833)**	(64,980)
Attributable to:			
Equity shareholders of the Company		**(80,455)**	(64,180)
Non-controlling interests		**622**	(800)
Loss for the year		**(79,833)**	(64,980)
Loss per share attributable to equity shareholders of the Company:			
Basic	10	**HK$(0.30)**	HK$(0.24)
Diluted	10	**HK$(0.30)**	HK$(0.24)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	2018 HK$'000	2017 (Note) HK$'000
Loss for the year	**(79,833)**	(64,980)
Other comprehensive income, net of nil tax unless specified:		
Items that may be reclassified subsequently to profit or loss		
Fair value changes on cash flow hedges:		
(Losses)/gains arising during the year	**(14,477)**	43,063
Transferred to and included in the following line items in the consolidated statement of profit or loss:		
Cost of sales	**5,464**	5,558
General and administrative expenses	**3,242**	1,037
Exchange difference on translation of financial statements of overseas subsidiaries	**(32,446)**	73,518
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans and long service payment liabilities	**399**	(1,857)
Income tax effect	**(187)**	296
Other comprehensive income for the year	**(38,005)**	121,615
Total comprehensive income for the year	**(117,838)**	56,635
Attributable to:		
Equity shareholders of the Company	**(118,460)**	57,435
Non-controlling interests	**622**	(800)
Total comprehensive income for the year	**(117,838)**	56,635

Note:

The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 52 to 92 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	**As at 31 December 2018 HK$'000**	As at 31 December 2017 *(Note)* *HK$'000*
Non-Current Assets			
Property, plant and equipment	14	**308,963**	325,958
Leasehold land and land use rights	15	**126,310**	136,392
Intangible assets	16	**491,905**	208,334
Other long-term assets	17	**13,006**	12,708
Deferred tax assets	29	**5,230**	4,669
Defined benefit plan assets	27	**7,930**	7,769
Forward foreign exchange contracts	21	**964**	382
Interest in an associate	18	**–**	-
		954,308	696,212
Current Assets			
Inventories	19	**402,939**	231,769
Accounts receivable and bills receivable	20	**297,609**	264,864
Forward foreign exchange contracts	21	**449**	913
Prepayments and other receivables	22	**74,337**	74,709
Current tax recoverable		**258**	1,054
Cash and bank balances	23	**321,892**	512,990
		1,097,484	1,086,299
Current Liabilities			
Accounts payable and bills payable	24	**166,179**	105,537
Accruals and other payables and contract liabilities	25	**245,689**	195,508
Forward foreign exchange contracts	21	**8,350**	6,239
Current tax liabilities		**13,078**	5,535
Bank borrowings	26	**73,792**	98,871
		507,088	411,690
Net Current Assets		**590,396**	674,609
Total Assets Less Current Liabilities		**1,544,704**	1,370,821

	Note	**As at 31 December 2018 HK$'000**	As at 31 December 2017 *(Note)* *HK$'000*
Non-Current Liabilities			
Retirement benefits and other post retirement obligations	27	**26,486**	24,500
Licence fees payable	28	**310,548**	26,613
Deferred tax liabilities	29	**25,148**	25,221
Forward foreign exchange contracts	21	**5,178**	1,399
		367,360	77,733
Net Assets		**1,177,344**	1,293,088
Capital and Reserves			
Share capital	30	**27,161**	27,161
Reserves	31	**1,152,509**	1,268,875
Total equity attributable to equity shareholders of the Company		**1,179,670**	1,296,036
Non-controlling interests		**(2,326)**	(2,948)
Total Equity		**1,177,344**	1,293,088

Note:

The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

Approved and authorised for issue by the Board of Directors on 25 March 2019.

WANG Kin Chung, Peter
Director

MAK WANG Wing Yee, Winnie
Director

The notes on pages 52 to 92 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to equity shareholders of the Company				
	Share capital *HK$'000*	**Reserves** *HK$'000*	**Total** *HK$'000*	**Non-controlling interests** *HK$'000*	**Total equity** *HK$'000*
Balance at 1 January 2018	**27,161**	**1,268,875**	**1,296,036**	**(2,948)**	**1,293,088**
Impact of initial adoption of HKFRS 9 *(Note)*	**–**	**1,550**	**1,550**	**–**	**1,550**
Adjusted balance at 1 January 2018	**27,161**	**1,270,425**	**1,297,586**	**(2,948)**	**1,294,638**
Loss for the year	**–**	**(80,455)**	**(80,455)**	**622**	**(79,833)**
Other comprehensive income, net of tax	**–**	**(38,005)**	**(38,005)**	**–**	**(38,005)**
Total comprehensive income	**–**	**(118,460)**	**(118,460)**	**622**	**(117,838)**
Share option scheme – value of employee services	**–**	**544**	**544**	**–**	**544**
Balance at 31 December 2018	**27,161**	**1,152,509**	**1,179,670**	**(2,326)**	**1,177,344**

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

Note:

The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 52 to 92 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2018

	Note	**2018** **HK$'000**	2017 (Note) HK$'000
Operating activities			
Cash (used in)/generated from operations	36(a)	**(112,604)**	107,475
Income tax paid		**(1,200)**	(8,263)
Net cash (used in)/generated from operating activities		**(113,804)**	99,212
Investing activities			
Interest received		**3,467**	4,339
Payment for the purchase of property, plant and equipment		**(48,007)**	(28,116)
Proceeds from disposals of property, plant and equipment		**695**	1,553
Decrease in short-term bank deposits, with maturities over 3 months		**25,180**	95,496
Increase in pledged bank deposits		**(31,318)**	–
Decrease/(increase) in bank structured deposits		**1,422**	(1,920)
Net cash (used in)/generated from investing activities		**(48,561)**	71,352
Financing activities			
Interest paid		**(4,253)**	(2,826)
Proceeds from new bank borrowings	36(b)	**697,200**	568,285
Repayment of bank borrowings	36(b)	**(722,279)**	(668,319)
Net cash used in financing activities		**(29,332)**	(102,860)
Net (decrease)/increase in cash and cash equivalents		**(191,697)**	67,704
Cash and cash equivalents at beginning of the year	23	**458,500**	375,175
Effect on foreign exchange rate changes		**(4,117)**	15,621
Cash and cash equivalents at end of the year	23	**262,686**	458,500

Note:

The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 52 to 92 form part of these financial statements.

Notes to the Consolidated Financial Statements

1. General Information

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

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

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

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors of the Company (the "Board") on 25 March 2019.

2. Significant Accounting Policies

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

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Group and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the derivative financial instruments, club debentures and bank structured deposits are stated at their fair values (see Note 2(c)(i) and 2(n)(i)).

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

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

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

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

2. Significant Accounting Policies (Continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017 *HK$'000*	Reclassification *HK$'000*	Remeasurement *HK$'000*	HKFRS 9 carrying amount at 1 January 2018 *HK$'000*
Financial assets carried at FVPL				
Other long term assets – Club debenture	–	2,100	1,550	3,650
Cash and bank balances – Bank structured deposits	–	29,310	–	29,310
	–	31,410	1,550	32,960
Financial assets classified as available-for-sale under HKAS 39 *(Note (i))*	2,100	(2,100)	–	–
Financial assets classified as loans and receivables with embedded derivatives under HKAS 39 *(Note (ii))*	29,310	(29,310)	–	–

Notes:

(i) Under HKAS 39, club debentures under other long term assets were classified as available-for-sale financial assets. They are classified under FVPL under HKFRS 9.

(ii) Under HKAS 39, bank structured deposits under cash and bank balances were classified as loans and receivables with embedded derivatives. They are classified under FVPL under HKFRS 9.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in Notes 2(k), (m), (n) and (w)(i).

The measurement categories for all financial assets and liabilities remain the same, except for club debentures and bank structured deposits discussed above. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the financial assets measured at amortised cost (including cash and bank balances, and accounts and other receivables).

For further details on the Group's accounting policy for accounting for credit losses, see Note 2(w).

The adoption of the ECL model under HKFRS 9 does not have any material impact on the financial position and the financial result of the Group.

c. Hedge accounting

The Group has elected to adopt the new general hedge accounting model in HKFRS 9. Depending on the complexity of the hedge, this new accounting model allows a more qualitative approach to assessing hedge effectiveness compared to HKAS 39 to be applied, and the assessment is always forward-looking. The adoption of HKFRS 9 does not have a significant impact on the Group's financial statements in this regard.

For an explanation of how the Group applies hedge accounting, see Note 2(n)(ii).

2. Significant Accounting Policies (Continued)

d. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

- On 1 January 2018 (the date of initial application of HKFRS 9 by the Group), the Group has made assessment for the determination of the business model within which a financial asset is held.

- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

- All hedging relationships designated under HKAS 39 at 31 December 2017 met the criteria for hedge accounting under HKFRS 9 at 1 January 2018 and are therefore regarded as continuing hedging relationships. Changes to hedge accounting policies have been applied prospectively.

(ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies situations which control of the promised good or service is regarded as being transferred over time:

- When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

- When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

- When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into such situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue.

b. Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see Note 2(t)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis (see Note 2(l)).

Previously, amounts received before the goods delivered were presented as advances received under "accruals and other payables".

To reflect these changes in presentation, at 1 January 2018, as a result of the adoption of HKFRS 15, advances received from customers included under "accruals and other payables" of HK$1,690,000 is now renamed as "accruals and other payables and contract liabilities" (Note 25).

(iii) HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial results of the Group.

2. Significant Accounting Policies (Continued)

(d) Subsidiaries and non-controlling interests

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

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

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

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

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

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

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

(e) Associate

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

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

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

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

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

2. Significant Accounting Policies (Continued)

(f) Foreign currency translation

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

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

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

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

(g) Property, plant and equipment

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

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

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

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

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

(h) Leasehold land and land use rights

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

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

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

(i) Intangible assets

(i) Goodwill

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

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

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

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

2. Significant Accounting Policies (Continued)

(ii) Licence rights/Licence fees payable

Licence rights on brands are stated at cost less accumulated amortisation and impairment losses (see Note 2(v)). Licence rights are initially measured as the fair value of the consideration given for the recognition of the licence rights at the time of their inception. The consideration given is determined based on the capitalisation of the minimum licence fee payments in accordance with the licence agreements. Amortisation of licence rights with finite useful lives is charged to profit or loss on a straight-line basis over the licence period, with both the period and method of amortisation reviewed annually.

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

(iii) Trademarks

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

(iv) Customer relationship

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

(j) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

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

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

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

(k) Accounts and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(l)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(w)).

(l) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(t)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in Note 2(w) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(k)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(t)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(k)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

Policy prior to 1 January 2018

In the comparative period, amounts received, before the goods were delivered, were presented as advances received under "accruals and other payables". These balances have been reclassified on 1 January 2018 (see Note 2(c)(ii)).

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in Note 2(w).

2. Significant Accounting Policies (Continued)

(n) Derivative financial instruments and hedging activities

(i) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see Note 2(n)(ii)).

(ii) Hedging activities

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates (cash flow hedges). Some borrowings are designated as hedges of the foreign exchange risk of a net investment in a foreign operation. The hedge accounting policy applied from 1 January 2018 is similar to that applicable prior to 1 January 2018. However, under the new hedge accounting policy, depending on the complexity of the hedge, the Group applies a more qualitative approach to assessing hedge effectiveness, and the assessment is always forward-looking.

a. Cash flow hedges

Where a derivative financial instrument is designated as a hedging instrument in a cash flow hedge, the effective portion of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

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

For all other hedged forecast transactions, the amount accumulated in the hedging reserve is reclassified from equity to profit or loss in the same period or periods during which the hedged cash flows affect profit or loss (such as when a forecast sale occurs or interest expense is recognised).

If a hedge no longer meets the criteria for hedge accounting (including when the hedging instrument expires or is sold, terminated or exercised), then hedge accounting is discontinued prospectively. When hedge accounting is discontinued, but the hedged forecast transaction is still expected to occur, the amount that has been accumulated in the hedging reserve remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the amount that has been accumulated in the hedging reserve is reclassified from equity to profit or loss immediately.

b. Hedge of net investments in foreign operations

The effective portion of any foreign exchange gain or loss on the borrowings is recognised in other comprehensive income and accumulated in equity in the exchange reserve until the disposal of the foreign operation, at which time the cumulative gain or loss is reclassified from equity to profit or loss. The ineffective portion is recognised immediately in profit or loss.

(o) Accounts and other payables

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

(p) Provisions and contingent liabilities

(i) Provisions and contingent liabilities

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

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

(ii) Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

(q) Employee benefits

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

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

2. Significant Accounting Policies (Continued)

(ii) Defined benefit retirement plan obligations

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

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

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

(iii) Share-based payments

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

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

(iv) Termination benefits

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

(r) Income tax

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

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

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

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

2. Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

    – the same taxable entity; or

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

(s) Interest-bearing borrowings and borrowing costs

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

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

(t) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(i) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

In the comparative period, revenue from sale of goods was recognised when the goods were delivered to the customers' premises, which was taken to be the point in time when the customer had accepted the goods and the related risks and rewards of ownership.

(ii) Service income

Service fees are recognised over time as the services are provided. Service fees exclude value added tax or other sales taxes.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(w)).

(iv) Government grants

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

2. Significant Accounting Policies (Continued)

(u) Operating lease charge

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

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

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

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

- investments in subsidiaries in the Company's statement of financial position;
- investment in an associate;
- property, plant and equipment;
- leasehold land and land use rights;
- intangible assets; and
- goodwill.

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

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a CGU).

– *Recognition of impairment losses*

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

– *Reversals of impairment losses*

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

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

(w) Credit losses from financial instruments

(i) Policy applicable from 1 January 2018

The Group recognises a loss allowance for ECLs on the financial assets measured at amortised cost (including cash and bank balances and accounts and other receivables). Financial assets measured at fair value are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

Where the effect of discounting is material, the expected cash shortfalls of accounts receivable, bills receivable and other receivables are discounted using the effective interest rate determined at initial recognition or an approximation thereof.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

2. Significant Accounting Policies (Continued)

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for accounts receivable and bills receivable are always measured at an amount equal to lifetime ECLs. ECLs on these receivables are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of selection of interest income

Interest income recognised in accordance with note 2(t)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2. Significant Accounting Policies (Continued)

(ii) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. accounts and other receivables and available-for-sale investments). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence existed, an impairment loss was determined and recognised as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

When the recovery of an accounts receivable or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

(x) Financial guarantees

Financial guarantees issued are contracts that require the issuer (i.e. the "guarantor") to make specified payments to reimburse the beneficiary of the guarantee (i.e. the "holder") for a loss the holder incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

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

(y) Related parties

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

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or the Group's parent.

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

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

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

  (iii) Both entities are joint ventures of the same third party.

  (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

  (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

  (vi) The entity is controlled or jointly controlled by a person identified in (a).

  (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

  (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

3. Critical Accounting Estimates and Judgements

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

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

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

(b) Estimated impairment of non-financial assets, including goodwill, trademark and licence rights

The Group assesses whether non-financial assets including goodwill, trademark and licence rights have suffered any impairment in accordance with the accounting policy stated in Note 2(v). The recoverable amounts of non-financial assets including goodwill, trademark and licence rights have been determined based on the greater of value in use and fair value less costs of disposal. These calculations require the use of judgement and estimates, in particular of future revenues or cash flows. Management has performed impairment assessment on the property, plant and equipment, goodwill, trademark and licence rights as at 31 December 2018. Management believes that any reasonable possible deviation from any of these assumptions would not cause the aggregate carrying amounts of CGUs to exceed their recoverable amounts.

(c) Current and deferred taxes

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

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

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

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

(e) Impairment of accounts receivable and bills receivable

The Group estimates the loss allowances for accounts receivable and bills receivable by assessing the ECLs. This requires the use of estimates and judgements. ECLs are based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, and an assessment of both the current and forecast general economic conditions at the end of reporting period. Where the estimation is different from the original estimate, such difference will affect the carrying amounts of accounts receivable and bills receivable and thus the impairment loss in the period in which such estimate is changed. The Group keeps assessing the expected credit loss of accounts receivable and bills receivable during their expected lives.

4. Revenue and Segment Reporting

(a) Revenue

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

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

All revenue was recognised at point in time for the year ended 31 December 2018 and 2017.

(b) Segment reporting

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

4. Revenue and Segment Reporting (Continued)

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

	Garment manufacturing		Brands business		Unallocated		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Reportable segment revenue	**2,172,889**	1,708,701	**419,899**	224,785	**–**	–	**2,592,788**	1,933,486
Less: Inter-segment revenue	**(14,466)**	(10,780)	**–**	–	**–**	–	**(14,466)**	(10,780)
Revenue	**2,158,423**	1,697,921	**419,899**	224,785	**–**	–	**2,578,322**	1,922,706
Reportable segment EBITDA *(Note)*	**143,685**	50,003	**(120,172)**	(53,773)	**2,035**	(881)	**25,548**	(4,651)
Finance income	**–**	–	**107**	118	**3,467**	4,339	**3,574**	4,457
Finance costs								
Interest on bank borrowings	**–**	–	**–**	–	**(4,253)**	(2,826)	**(4,253)**	(2,826)
Imputed interest on licence fees payable	**–**	–	**(13,675)**	(1,484)	**–**	–	**(13,675)**	(1,484)
Depreciation on property, plant and equipment	**(31,456)**	(30,872)	**(12,064)**	(6,459)	**(14,104)**	(15,675)	**(57,624)**	(53,006)
Amortisation of leasehold land and land use rights	**(311)**	(300)	**–**	–	**(3,308)**	(3,204)	**(3,619)**	(3,504)
Amortisation of intangible assets								
Licence rights	**–**	–	**(20,718)**	(2,647)	**–**	–	**(20,718)**	(2,647)
Other intangible assets	**–**	–	**(71)**	(3,525)	**–**	–	**(71)**	(3,525)
Reportable segment profit/(loss) before tax	**111,918**	18,831	**(166,593)**	(67,770)	**(16,163)**	(18,247)	**(70,838)**	(67,186)
Income tax (charge)/credit	**(14,934)**	(2,843)	**(380)**	(139)	**6,319**	5,188	**(8,995)**	2,206
Reportable segment profit/(loss) for the year	**96,984**	15,988	**(166,973)**	(67,909)	**(9,844)**	(13,059)	**(79,833)**	(64,980)

Note:

EBITDA is defined as earnings before finance income, finance costs, income tax (charge)/credit, depreciation and amortisation. EBITDA is a non-HKFRS measure used by management for monitoring business performance. It may not be comparable to similar measures presented by other companies.

	Garment manufacturing		Brands business		Unallocated *(Note (i))*		Total	
	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000	**As at 31 December 2018 HK$'000**	As at 31 December 2017 HK$'000	**As at 31 December 2018 HK$'000**	As at 31 December 2017 HK$'000	**As at 31 December 2018 HK$'000**	As at 31 December 2017 HK$'000
Reportable segment assets	**801,906**	736,643	**803,795**	368,245	**446,091**	677,623	**2,051,792**	1,782,511
Reportable segment liabilities	**332,362**	284,738	**468,294**	105,814	**73,792**	98,871	**874,448**	489,423

	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
(Provision for)/reversal of impairment of receivables, net	**(472)**	768	**(497)**	21	**–**	–	**(969)**	789
(Write-down)/reversal of write-down of inventories to net realisable value, net	**(13,612)**	(8,820)	**(16,251)**	8,520	**–**	–	**(29,863)**	(300)
Additions to non-current assets	**25,337**	14,110	**353,388**	13,066	**3,257**	940	**381,982**	28,116

4. Revenue and Segment Reporting (Continued)

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

	PRC		US		UK		Canada		Other countries		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Revenue	**355,118**	264,527	**558,463**	529,992	**685,227**	533,731	**396,203**	228,646	**583,311**	365,810	**2,578,322**	1,922,706

Included in revenue derived from the PRC was HK$250,243,000 (2017: HK$212,335,000) related to revenue generated in Hong Kong.

For the year ended 31 December 2018, revenue from three (2017: three) customers in the garment manufacturing segment each accounted for more than 10% of the Group's total revenue and they represented approximately 16%, 15% and 13% (2017: 18%, 15% and 11%) of the total revenue respectively. Details of concentrations of credit risk arising from customers are set out in Note 33.1(b).

	PRC		Luxembourg		Thailand		Other countries		Total	
	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000	**As at 31 December 2018 HK$'000**	As at 31 December 2017 HK$'000	**As at 31 December 2018 HK$'000**	As at 31 December 2017 HK$'000	**As at 31 December 2018 HK$'000**	As at 31 December 2017 HK$'000	**As at 31 December 2018 HK$'000**	As at 31 December 2017 HK$'000
Non-current assets *(Note (ii))*	**630,541**	367,693	**175,919**	183,378	**70,467**	70,110	**63,257**	62,211	**940,184**	683,392

Included in non-current assets located in the PRC was HK$324,881,000 (2017: HK$9,546,000) related to assets located in Hong Kong.

Notes:

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

(ii) Non-current assets exclude deferred tax assets, defined benefit plan assets and forward foreign exchange contracts.

5. Other Income and Other Gains

	2018 HK$'000	2017 HK$'000
Consultancy and transitional services fee income from JW PRC Co *(Note (i))*	**–**	27,603
Government subsidies *(Note (ii))*	**1,120**	3,171
Net loss on disposals of property, plant and equipment	**(65)**	(1,908)
Sundry income	**2,375**	2,124
	3,430	30,990

Notes:

(i) Shanghai Tristate Enterprises Co., Ltd., a wholly-owned subsidiary of the Group, provided consultancy and transitional services to Jack Wolfskin Trading (Shanghai) Co., Ltd. ("JW PRC Co") after the early termination of the distribution licence for Jack Wolfskin products in the PRC from 27 March 2015 until December 2017.

(ii) The Group received HK$1,120,000 (2017: HK$3,171,000) government subsidies from the PRC government during the year ended 31 December 2018. There were no unfulfilled conditions and other contingencies attached to the receipts of these government subsidies. There is no assurance that the Group will continue to receive such government subsidies in the future.

6. Loss from Operations

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

	2018 HK$'000	2017 HK$'000
Amortisation of leasehold land and land use rights	**3,619**	3,504
Amortisation of intangible assets	**20,789**	6,172
Depreciation on property, plant and equipment	**57,624**	53,006
Provision for/(reversal of) impairment of receivables, net	**969**	(789)
Cost of inventories *(Note 19)*	**1,958,175**	1,500,872
Employee benefit expenses *(Note 11)*	**716,652**	640,147
Minimum operating lease payments in respect of land and buildings	**51,277**	33,381
Contingent operating lease payments in respect of buildings	**6,388**	554
Net exchange gain	**(4,987)**	(3,475)
Auditor's remuneration		
Audit services	**3,703**	3,340
Others	**751**	735

7. Finance Income/Finance Costs

	2018 HK$'000	2017 HK$'000
Finance income		
Interest income from bank deposits	**3,467**	4,339
Imputed interest on long-term rental deposits	**107**	118
	3,574	4,457
Finance costs		
Interest on bank borrowings	**4,253**	2,826
Imputed interest on licence fees payable	**13,675**	1,484
	17,928	4,310

8. Income Tax (Charge)/Credit

	2018 HK$'000	2017 HK$'000
Current income tax		
Hong Kong profits tax	**(6,654)**	(337)
Non-Hong Kong tax	**(3,176)**	(2,352)
Over-provisions of prior years	**36**	358
	(9,794)	(2,331)
Deferred tax	**799**	4,537
	(8,995)	2,206

In March 2018, the Hong Kong Government introduced a two-tiered profits tax rate regime by enacting the Inland Revenue (Amendment) (No. 3) Ordinance 2018 (the "Ordinance"). Under the two-tiered profits tax rate regime, the first HK$2,000,000 of assessable profits of qualifying corporations is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The Ordinance is effective from the year of assessment 2018-2019. Accordingly, the provision for Hong Kong Profits Tax for the year ended 31 December 2018 is calculated in accordance with the two-tiered profits tax rate regime (2017: a single tax rate of 16.5% was applied).

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

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

	2018 HK$'000	2017 HK$'000
Loss before tax	**(70,838)**	(67,186)
Notional tax on loss before taxation calculated at the rates applicable to profits in the jurisdictions concerned	**14,122**	12,277
Withholding tax	**(1,028)**	3,187
Tax effect of non-taxable income	**2,204**	3,365
Tax effect of non-deductible expenses	**(1,290)**	(2,274)
Tax effect of previously unrecognised tax losses	**12,156**	4,510
Reversal of previously recognised temporary difference	**(2,020)**	1,028
Tax effect of tax losses not recognised	**(33,175)**	(20,245)
Over-provisions of prior years	**36**	358
Income tax (charge)/credit	**(8,995)**	2,206

9. Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

10. Loss Per Share

(a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to equity shareholders of the Company of HK$80,455,000 (2017: HK$64,180,000) by the weighted average number of 271,607,253 (2017: 271,607,253) ordinary shares in issue during the year.

(b) Diluted loss per share

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

During the years ended 31 December 2018 and 2017, the conversion of all potential ordinary shares outstanding would have an anti-dilutive effect on the loss per share. Hence, there was no dilutive effect on calculation of the diluted loss per share for the years ended 31 December 2018 and 2017.

11. Employee Benefit Expenses

	2018 *HK$'000*	2017 *HK$'000*
Directors' emoluments *(Note 12)*	**7,308**	7,384
Salaries, wages and other benefits	**674,520**	601,615
Retirement benefits		
– Defined contribution plans	**32,043**	28,532
– Defined benefit plans *(Note 27(b))*	**725**	616
– Long service payment liabilities *(Note 27(c))*	**1,512**	1,520
Share-based compensation expense		
– share options granted *(Note 32)*	**544**	480
Total employment expenses	**716,652**	640,147

12. Directors' Emoluments

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

Name	**Directors' fees *HK$'000***	**Salaries and other benefits *HK$'000***	**Discretionary bonuses *HK$'000***	**Employer's contribution to retirement schemes *HK$'000***	**2018 Total *HK$'000***	2017 Total *HK$'000*
Executive Director:						
Mr. WANG Kin Chung, Peter	–	**5,384**	–	**152**	**5,536**	5,394
Non-Executive Directors:						
Ms. WANG KOO Yik Chun	**70**	**765**	–	–	**835**	1,135
Ms. MAK WANG Wing Yee, Winnie	**207**	–	–	–	**207**	165
Dr. WANG Shui Chung, Patrick	**111**	–	–	–	**111**	112
Independent Non-Executive Directors:						
Mr. LO Kai Yiu, Anthony	**268**	–	–	–	**268**	268
Mr. James Christopher KRALIK	**206**	–	–	–	**206**	206
Mr. Peter TAN	**145**	–	–	–	**145**	104
	1,007	**6,149**	–	**152**	**7,308**	7,384

13. Five Highest Paid Individuals

Of the five individuals with the highest emoluments, one (2017: one) is a director whose emoluments are disclosed in Note 12. The aggregate of the emoluments in respect of the other four (2017: four) individuals are as follows:

	2018 **HK$'000**	2017 HK$'000
Salaries and other emoluments	**9,046**	8,546
Discretionary bonuses	**2,774**	3,365
Employer's contribution to retirement benefit schemes	**354**	345
	12,174	12,256

The emoluments of the four (2017: four) individuals with highest emoluments are within the following bands:

	2018 **HK$'000**	2017 HK$'000
HK$2,500,001 – HK$3,000,000	**1**	2
HK$3,000,001 – HK$3,500,000	**3**	2

14. Property, Plant and Equipment

	Freehold land+ HK$'000	Buildings+ HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction-in-progress HK$'000	Total HK$'000
Cost:							
As at 1 January 2017	54,099	416,947	247,046	289,642	21,324	135	1,029,193
Exchange difference	5,477	30,892	15,584	17,066	438	10	69,467
Additions	–	60	9,445	16,494	571	1,546	28,116
Reclassification	–	–	–	350	–	(350)	–
Disposals	–	–	(13,816)	(14,414)	(518)	–	(28,748)
As at 31 December 2017	59,576	447,899	258,259	309,138	21,815	1,341	1,098,028
As at 1 January 2018	**59,576**	**447,899**	**258,259**	**309,138**	**21,815**	**1,341**	**1,098,028**
Exchange difference	**441**	**(15,682)**	**(4,793)**	**(9,894)**	**(290)**	**(65)**	**(30,283)**
Additions	**–**	**129**	**13,281**	**25,999**	**973**	**7,625**	**48,007**
Reclassification	**–**	**–**	**–**	**4,095**	**–**	**(4,095)**	**–**
Disposals	**–**	**–**	**(14,553)**	**(3,233)**	**(339)**	**–**	**(18,125)**
As at 31 December 2018	**60,017**	**432,346**	**252,194**	**326,105**	**22,159**	**4,806**	**1,097,627**
Accumulated depreciation:							
As at 1 January 2017	–	250,770	201,284	226,658	18,332	–	697,044
Exchange difference	–	20,852	13,298	12,769	388	–	47,307
Charge for the year	–	14,806	14,934	21,940	1,326	–	53,006
Written back on disposals	–	–	(11,486)	(13,381)	(420)	–	(25,287)
As at 31 December 2017	–	286,428	218,030	247,986	19,626	–	772,070
As at 1 January 2018	**–**	**286,428**	**218,030**	**247,986**	**19,626**	**–**	**772,070**
Exchange difference	**–**	**(10,683)**	**(4,017)**	**(8,731)**	**(234)**	**–**	**(23,665)**
Charge for the year	**–**	**16,683**	**13,783**	**26,087**	**1,071**	**–**	**57,624**
Written back on disposals	**–**	**–**	**(14,435)**	**(2,753)**	**(177)**	**–**	**(17,365)**
As at 31 December 2018	**–**	**292,428**	**213,361**	**262,589**	**20,286**	**–**	**788,664**
Net book value:							
As at 31 December 2018	**60,017**	**139,918**	**38,833**	**63,516**	**1,873**	**4,806**	**308,963**
As at 31 December 2017	59,576	161,471	40,229	61,152	2,189	1,341	325,958

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

Depreciation expense of HK$20,167,000 (2017: HK$20,988,000) is included in cost of sales, HK$3,830,000 (2017: HK$1,577,000) is included in selling and distribution expenses and HK$33,627,000 (2017: HK$30,441,000) is included in general and administrative expenses.

15. Leasehold Land and Land Use Rights

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

	2018 HK$'000	2017 HK$'000
Outside Hong Kong		
– Medium-term leases	**126,310**	136,392

	2018 HK$'000	2017 HK$'000
Cost:		
As at 1 January	**167,728**	156,740
Exchange difference	**(8,133)**	10,988
As at 31 December	**159,595**	167,728
Accumulated amortisation:		
As at 1 January	**31,336**	25,877
Exchange difference	**(1,670)**	1,955
Charge for the year	**3,619**	3,504
As at 31 December	**33,285**	31,336
Net book value	**126,310**	136,392

16. Intangible Assets

	Goodwill HK$'000	Licence rights (Note (i)) HK$'000	Trademark (Note (ii)) HK$'000	Customer relationship and others (Note (iii)) HK$'000	Total HK$'000
Cost:					
As at 1 January 2017	20,893	290,475	160,275	6,783	478,426
Derecognition	–	(264,788)	–	–	(264,788)
Exchange difference	–	1,801	23,103	310	25,214
As at 31 December 2017	20,893	27,488	183,378	7,093	238,852
As at 1 January 2018	**20,893**	**27,488**	**183,378**	**7,093**	**238,852**
Additions	**–**	**333,975**	**–**	**–**	**333,975**
Derecognition	**–**	**(26,155)**	**–**	**(6,900)**	**(33,055)**
Exchange difference	**–**	**(1,333)**	**(7,459)**	**150**	**(8,642)**
As at 31 December 2018	**20,893**	**333,975**	**175,919**	**343**	**531,130**
Accumulated amortisation:					
As at 1 January 2017	20,893	264,788	–	3,218	288,899
Derecognition	–	(264,788)	–	–	(264,788)
Amortisation	–	2,647	–	3,525	6,172
Exchange difference	–	100	–	135	235
As at 31 December 2017	20,893	2,747	–	6,878	30,518
As at 1 January 2018	**20,893**	**2,747**	**–**	**6,878**	**30,518**
Derecognition	**–**	**(5,182)**	**–**	**(6,900)**	**(12,082)**
Amortisation	**–**	**20,718**	**–**	**71**	**20,789**
Exchange difference	**–**	**(156)**	**–**	**156**	**–**
As at 31 December 2018	**20,893**	**18,127**	**–**	**205**	**39,225**
Net book value:					
As at 31 December 2018	**–**	**315,848**	**175,919**	**138**	**491,905**
As at 31 December 2017	–	24,741	183,378	215	208,334

Amortisation of HK$20,718,000 (2017: HK$2,647,000) is included in the selling and distribution expenses and HK$71,000 (2017: HK$3,525,000) is included in general and administrative expenses.

Notes:

(i) Licence rights

Licence rights of brands represent capitalisation of the minimum contractual obligation payable to brand licensors at the time of inception. They are recognised based on discount rates approximately 6.3% to 6.9% per annum at the dates of inception.

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

During the year ended 31 December 2018, the Group re-entered into a 10 years (with conditional renewal options for additional 20 years) licence agreement for the sourcing and distribution of Nautica branded products in Mainland China and Hong Kong. In addition, during the year ended 31 December 2018, the Group also entered into 10 years (with conditional renewal options for additional 20 years) licence agreement to distribute "Spyder" branded products, an American sports brand products, mainly in Mainland China and Hong Kong. The relating minimum contractual obligation payable to the licensors is recognised in licence fees payable.

During the year ended 31 December 2018, licence rights of HK$26,155,000 and related accumulated amortisation of HK$5,182,000 were derecognised after the Group's decision to early terminate the licence agreement for the distribution of "ACBC" branded products.

(ii) Trademark

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

Impairment test for CGU containing trademark

The trademark is allocated to a CGU under brands business segment. The recoverable amount of the CGU was based on value in use calculations. These calculations use cash flow projections based on latest forecasts covering a 7-year (2017: 8-year) period at underlying growth rates that exceed historical rates to reflect the start-up nature of the business. Cash flows beyond the 7-year (2017: 8-year) period are extrapolated using the estimated rate of 2% (2017: 2%). The following key assumptions have been used for the value in use calculations.

Discount rate

The cash flows are discounted using a risk-adjusted pre-tax discount rate of 20.4% (2017: 21.5%) which was derived from the post-tax discount rate of 17% (2017: 16%).

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

(iii) Customer relationship

In March 2016, the Group acquired 99% equity interest of the distributor of "C.P. Company" products in Japan at a consideration of HK$5,327,000. Customer relationship acquired was amounted to HK$6,509,000. The customer relationship has been fully amortised as at 31 December 2017 and derecognised as at 31 December 2018.

17. Other Long-Term Assets

	2018 HK$'000	2017 HK$'000
Advance to an employee (*Note 35(b)(ii)*)	**3,887**	4,705
Long-term rental, utilities and other deposits	**5,469**	5,254
Club debentures (*Note*)	**3,650**	2,100
Other long term assets	**–**	649
	13,006	12,708

Note:

Club debenture were reclassified from available-for-sale financial assets to FVPL upon the initial application of HKFRS 9 at 1 January 2018 (Note 2(c)(i)).

18. Interest in an Associate

Particulars of the associate, which is an unlisted corporate entity, as at 31 December 2018 and 2017 are as follows:

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

Note:

MAC International Sarl is a private company which is inactive and under liquidation during the years ended 31 December 2018 and 2017. There is no quoted market price available for the shares of MAC International Sarl. There are no contingent liabilities relating to the Group's interest in an associate. The associate does not have a significant impact on the Group's results of operations and financial position in 2018 and 2017.

19. Inventories

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

	2018 HK$'000	2017 HK$'000
Raw materials	**93,776**	56,044
Work-in-progress	**151,736**	110,736
Finished goods	**138,269**	42,977
Goods in transit	**19,158**	22,012
	402,939	231,769

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

	2018 HK$'000	2017 HK$'000
Carrying amount of inventories sold	**1,928,312**	1,500,572
Write down of inventories	**36,471**	16,515
Reversal of write-down of inventories	**(6,608)**	(16,215)
	1,958,175	1,500,872

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

20. Accounts Receivable and Bills Receivable

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

	2018 HK$'000	2017 HK$'000
Less than 3 months	**295,927**	259,220
3 months to 6 months	**1,682**	5,644
Over 6 months	**1,790**	1,764
	299,399	266,628
Less: Loss allowance	**(1,790)**	(1,764)
	297,609	264,864

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

The carrying amounts of the accounts receivable and bills receivable approximate their fair values. The maximum exposure to credit risk is the fair value of the above receivables. The Group does not hold any collateral as security. Further details on the Group's credit policy and credit risk arising from accounts receivable and bills receivable are set out in Note 33(b).

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

	2018 HK$'000	2017 HK$'000
United States dollars	**236,603**	231,326
Renminbi	**24,086**	9,228
Euro	**32,245**	19,765
Pound Sterling	**–**	441
Others	**4,675**	4,104
	297,609	264,864

21. Forward Foreign Exchange Contracts

	2018 HK$'000	2017 HK$'000
Cash flow hedges *(Note 33.1(a)(i)(A))*		
Included in:		
– Non-current assets	**964**	382
– Current assets	**449**	913
	1,413	1,295
Included in:		
– Non-current liabilities	**5,178**	1,399
– Current liabilities	**8,350**	6,239
	13,528	7,638

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

21. Forward Foreign Exchange Contracts

(Continued)

Net investment hedge

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

22. Prepayments and Other Receivables

	2018 *HK$'000*	2017 *HK$'000*
Other receivable from an entity in the PRC *(Note (i))*	**–**	28,155
Advance payments for purchases of inventories	**12,173**	7,757
Rental deposits	**11,104**	4,074
Value added tax and custom duties recoverable	**29,264**	18,718
Prepayments and other receivables	**21,796**	16,005
	74,337	74,709

Notes:

(i) Other receivable from an entity in the PRC represents consultancy and transitional services fee income receivable from JW PRC Co, which was fully settled in 2018 (Note 5(i)).

(ii) The carrying amounts of other receivables approximate their fair values. The maximum exposure to credit risk is the fair value of the above items. The Group does not hold any collateral as security on prepayments and other receivables. All of the receivables are expected to be recovered or recognised as expense within one year.

23. Cash and Bank Balances

	2018 *HK$'000*	2017 *HK$'000*
Short-term bank deposits	**342**	176,931
Cash at bank and on hand	**262,344**	281,569
Cash and cash equivalents in the consolidated cash flow statement	**262,686**	458,500
Short-term bank deposits, with maturities over 3 months	**–**	25,180
Bank structured deposits *(Note (i))*	**27,888**	29,310
Pledged bank deposits *(Note (ii))*	**31,318**	–
Cash and bank balances in the consolidated statement of financial position	**321,892**	512,990

Notes:

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

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

Upon initial application of HKFRS 9 at 1 January 2018, because the contractual cash flows of structured deposits do not represent solely the payments of principal and interest on the principal amount outstanding, bank structured deposits categorised under loans and receivables were reclassified and measured as FVPL (Note 2(c)(i)). At the date of inception of the contract and at 31 December 2018, the carrying amount of the bank structured deposit was approximately its fair value.

(ii) Bank deposits of HK$31,318,000 (2017: HK$Nil) was pledged to secure bank guarantee facilities granted to the Group.

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

	2018 *HK$'000*	2017 *HK$'000*
United States dollars	**194,047**	275,255
Renminbi	**66,454**	173,254
Hong Kong dollars	**22,893**	21,581
Euro	**12,021**	5,888
Pound Sterling	**5,517**	9,973
Others	**20,960**	27,039
Total	**321,892**	512,990

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

24. Accounts Payable and Bills Payable

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

	2018 *HK$'000*	2017 *HK$'000*
Less than 3 months	**147,661**	97,955
3 months to 6 months	**11,895**	2,669
Over 6 months	**6,623**	4,913
	166,179	105,537

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

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

24. Accounts Payable and Bills Payable
(Continued)

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

	2018 **HK$'000**	2017 *HK$'000*
United States dollars	**66,818**	59,547
Euro	**44,240**	22,496
Hong Kong dollars	**33,168**	17,481
Renminbi	**18,398**	4,215
Others	**3,555**	1,798
	166,179	105,537

25. Accruals and Other Payables and Contract Liabilities

(a) Contract liabilities

Upon the adoption of HKFRS 15, advances received from customers as at 1 January 2018 of HK$1,690,000 were reclassified from "accruals and other payables" to "contract liabilities" (see Note 2(c)(ii)).

When the Group receives advances before the delivery of goods, this will give rise to contract liabilities upon advances receipt, until the revenue recognised on the sale of goods. The payment arrangement is negotiated on a case by case basis with customers.

All of the contract liabilities of HK$4,902,000 as at 31 December 2018 are expected to be settled within one year.

(b) Accruals and other payables

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

26. Bank Borrowings

As at 31 December 2018 and 2017, the Group's bank borrowings were unsecured and covered by corporate guarantees given by the Company. The bank borrowings were due for repayment within three months at the end of the reporting period. Bank borrowings bore fixed interest rate ranged from 3.4% to 4.1% per annum (2017: 2.7% to 2.9% per annum). The carrying amounts of bank borrowings are denominated in the following currencies:

	2018 **HK$'000**	2017 *HK$'000*
United States dollars	**71,106**	98,871
Euro	**2,686**	–
	73,792	98,871

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

27. Retirement Benefits and Other Post Retirement Obligations

	2018 **HK$'000**	2017 *HK$'000*
Defined benefit plans *(Note (b))*	**(6,169)**	(7,484)
Long service payment liabilities *(Note (c))*	**24,725**	24,215
	18,556	16,731
Included in non-current assets	**(7,930)**	(7,769)
Included in non-current liabilities	**26,486**	24,500
	18,556	16,731

Notes:

(a) Defined contribution plans

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

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

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

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

(iv) The Group's subsidiaries in Thailand operate defined contribution plans, under which the Group generally contributes 5% of participating employees' salaries and the employees contribute 5% or up to 15% of their salaries.

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

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

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

(b) Defined benefit plans

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

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

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

The latest actuarial valuations of the above plans were performed by BMI Appraisals Limited, an independent professional valuation firm, as at 31 December 2018, using the projected unit credit method. Based on the actuarial reports, the aggregate market value of the plan assets as at 31 December 2018 was HK$22,280,000 (2017: HK$22,453,000), representing approximately 138% (2017: 150%) of the actuarial accrued liabilities at that date.

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

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

	2018 HK$'000	2017 HK$'000
Present value of funded obligations	**16,111**	14,969
Fair value of plan assets	**(22,280)**	(22,453)
Net defined benefit plan assets	**(6,169)**	(7,484)

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

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

	2018 HK$'000	2017 HK$'000
Current service cost	**781**	737
Net interest income on net defined benefit plan assets	**(56)**	(121)
Total, included in employee benefit expenses	**725**	616

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

	2018 HK$'000	2017 HK$'000
As at 1 January	**14,969**	14,196
Current service cost	**781**	737
Interest expense	**544**	500
Remeasurement – actuarial (gain)/loss arising from changes in demographic assumptions	**(103)**	686
Remeasurement – actuarial loss/(gain) arising from changes in financial assumptions	**608**	(562)
Exchange differences	**(605)**	673
Benefits paid by the Group	**(24)**	(115)
Benefits paid by the plans	**(59)**	(1,146)
As at 31 December	**16,111**	14,969

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

	2018 HK$'000	2017 HK$'000
As at 1 January	**22,453**	21,931
Interest income	**600**	621
Remeasurement – return on plan assets, excluding amounts included in interest income	**103**	(288)
Exchange differences	**(817)**	1,335
Benefits paid by the plan	**(59)**	(1,146)
As at 31 December	**22,280**	22,453

The principal actuarial assumptions used are as follows:

	2018	2017
Discount rate	**1% to 6%**	1% to 6%
Expected rate of future salary increase	**3% to 5%**	3% to 5%

At 31 December 2018 and 2017, the Group expects not to contribute to its defined benefit plans in 2019 and 2018 respectively. The weighted average duration of the defined benefit obligations is 9 years (2017: 10 years).

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

	2018	2017
Deposits with financial institutions	**12.9%**	13.2%
Bonds	**37.4%**	43.1%
Stocks	**22.9%**	20.7%
Other assets	**26.8%**	23.0%
Represented by:		
– Assets have a quoted market price	**60%**	64%
– Assets do not have a quoted market price	**40%**	36%

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

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

	Impact on defined benefit obligations		
Principal assumption	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.50%	Decrease by 4.2% (2017: Decrease by 4.5%)	Increase by 4.6% (2017: Increase by 4.9%)
Salary growth rate	0.50%	Increase by 4.6% (2017: Increase by 4.9%)	Decrease by 4.3% (2017: Decrease by 4.6%)

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

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

(c) Long service payment liabilities

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

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

On 13 December 2018, the National Legislative Assembly of Thailand has passed a bill amending the Labor Protection Act to include a requirement that an employee who is terminated after having been employed by the same employer for an uninterrupted period of twenty years or more, receives severance payment of 400 days of wages at the most recent rate. The Group will reflect the effect of such change by recognising past service costs during the period in which the amendment will have become law and is announced in the Royal Gazette.

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

The latest actuarial valuations of the Group's major obligations of long service payment liabilities as at 31 December 2018 were carried out by BMI Appraisals Limited, an independent professional valuation firm, using the projected unit credit method.

	2018 **HK$'000**	2017 HK$'000
Liability in the statement of financial position:		
– Present value of unfunded obligations	**24,725**	24,215

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

	2018 **HK$'000**	2017 HK$'000
Current services cost	**759**	736
Interest cost	**753**	784
Total, included in employee benefit expenses	**1,512**	1,520

Movement in the present value of unfunded obligations:

	2018 **HK$'000**	2017 HK$'000
As at 1 January	**24,215**	19,812
Current service cost	**759**	736
Interest expense	**753**	784
Benefit paid by the Group	**(373)**	(498)
Remeasurement – actuarial (gain)/loss arising from changes in demographic assumptions	**(797)**	51
Remeasurement – actuarial (gain)/ loss arising from changes in financial assumptions	**(4)**	1,394
Exchange difference	**172**	1,936
As at 31 December	**24,725**	24,215

The principal actuarial assumptions used are as follows:

	2018	2017
Discount rate	**2% to 5%**	2% to 7%
Expected rate of future salary increase	**3% to 5%**	3% to 5%

The weighted average duration of the long service payment liabilities is 12 years (2017: 12 years).

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

	Impact on defined benefit obligations		
Principal assumption	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.50%	Decrease by 4.6% (2017: Decrease by 5.0%)	Increase by 5.0% (2017: Increase by 3.8%)
Salary growth rate	0.50%	Increase by 4.9% (2017: Increase by 5.3%)	Decrease by 4.6% (2017: Decrease by 5.0%)

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

28. Licence Fees Payable

	2018 **HK$'000**	2017 HK$'000
Within 1 year	**16,514**	2,376
More than 1 year but less than 2 years	**27,876**	2,543
More than 2 years but less than 5 years	**142,010**	12,686
More than 5 years	**282,083**	21,181
	468,483	38,786
Less: Imputed interest on licence fees payable	**(141,421)**	(9,797)
Present value	**327,062**	28,989
Less: Current portion included in accruals and other payables	**(16,514)**	(2,376)
Non-current portion	**310,548**	26,613

Note:

Licence fees payable represents the contractual obligations at the time of recognition. It is recognised based on discount rates of 6.3% to 6.9% per annum at the date of inception of such obligations (Note 16(i)).

The carrying amounts of licence fees payable are denominated in USD.

The estimated fair value of the licence fees payable as at 31 December 2018 and 2017 was approximate to the carrying value.

29. Deferred Tax Assets/Liabilities

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

Deferred tax assets

	Provisions		Depreciation allowances less than the related depreciation		Tax losses		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
As at 1 January	**5,275**	4,503	**3,524**	3,423	**1,505**	2,366	**10,304**	10,292
Exchange differences	**116**	589	**2**	30	**–**	4	**118**	623
Credited/(charged) to profit or loss	**1,138**	(11)	**(84)**	71	**662**	(865)	**1,716**	(805)
(Charged)/credited to other comprehensive income	**(187)**	194	**–**	–	**–**	–	**(187)**	194
As at 31 December	**6,342**	5,275	**3,442**	3,524	**2,167**	1,505	**11,951**	10,304

Deferred tax assets are recognised for tax losses carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2018, the Group did not recognise deferred tax assets of HK$107,309,000 (2017: HK$85,665,000) for tax losses that can be carried forward against future taxable income. Cumulative tax losses of HK$128,782,000 (2017: HK$93,463,000) can be carried forward indefinitely; cumulative tax losses of HK$165,222,000 (2017: HK$158,696,000) will expire within the next five years; and cumulative tax losses of HK$176,812,000 (2017: HK$132,374,000) will expire after more than 5 years.

Deferred tax liabilities

	Depreciation allowances in excess of the related depreciation		Withholding tax for distribution of retained earnings of the PRC and overseas subsidiaries		Fair value adjustments on business combination		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
As at 1 January	**512**	812	**20,691**	26,343	**9,653**	8,789	**30,856**	35,944
Exchange differences	**–**	–	**5**	(501)	**91**	857	**96**	356
Charged/(credited) to profit or loss	**16**	(300)	**847**	(5,049)	**54**	7	**917**	(5,342)
Credited to other comprehensive income	**–**	–	**–**	(102)	**–**	–	**–**	(102)
As at 31 December	**528**	512	**21,543**	20,691	**9,798**	9,653	**31,869**	30,856

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

	2018 HK$'000	2017 HK$'000
Net deferred tax asset recognised in the consolidated statement of financial position	**5,230**	4,669
Net deferred tax liability recognised in the consolidated statement of financial position	**(25,148)**	(25,221)
	(19,918)	(20,552)

30. Share Capital

	2018 HK$'000	2017 HK$'000
Authorised: 500,000,000 (2017: 500,000,000) shares of HK$0.10 each	**50,000**	50,000

Issued and fully paid ordinary share capital:

	2018		2017	
	Number of shares	HK$'000	Number of shares	HK$'000
As at 1 January and 31 December	**271,607,253**	**27,161**	271,607,253	27,161

31. Reserves

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

	Share premium HK$'000	Capital reserve HK$'000	Statutory reserves HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Remeasure-ments reserve HK$'000	Hedging reserve HK$'000	Contributed surplus HK$'000	General reserve HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1 January 2018	14,449	113,373	97,612	93,784	1,658	-	(6,344)	265,630	117,413	571,300	1,268,875
Impact on initial application of HKFRS 9 *(Note)*	-	-	-	-	-	-	-	-	-	1,550	1,550
Adjusted balance at 1 January 2018	14,449	113,373	97,612	93,784	1,658	-	(6,344)	265,630	117,413	572,850	1,270,425
Comprehensive income											
Loss for the year	-	-	-	-	-	-	-	-	-	(80,455)	(80,455)
Other comprehensive income											
Net fair value loss on cash flow hedges	-	-	-	-	-	-	(5,771)	-	-	-	(5,771)
Remeasurements of defined benefit plans and long service payment liabilities	-	-	-	-	-	399	-	-	-	-	399
Deferred tax charged to other comprehensive income *(Note 29)*	-	-	-	-	-	(187)	-	-	-	-	(187)
Currency translation differences	-	-	-	(32,446)	-	-	-	-	-	-	(32,446)
Total comprehensive income	-	-	-	(32,446)	-	212	(5,771)	-	-	(80,455)	(118,460)
Transactions with owners											
Transfer	-	-	-	-	-	(212)	-	-	-	212	-
Share option scheme – value of employee services	-	-	-	-	544	-	-	-	-	-	544
Share options granted to employee lapsed	-	-	-	-	(320)	-	-	-	-	320	-
Total transactions with owners	-	-	-	-	224	(212)	-	-	-	532	544
Balance at 31 December 2018	14,449	113,373	97,612	61,338	1,882	-	(12,115)	265,630	117,413	492,927	1,152,509

31. Reserves (Continued)

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

Note:

The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

31. Reserves (Continued)

(a) Share premium

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

(b) Capital reserve

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

(c) Statutory reserve and general reserve

Subsidiaries incorporated in Taiwan are required to set aside 10% of their net profit each year to reserve, according to Company Law in Taiwan. This appropriation is made in the following year until the accumulated reserve equals the paid-in capital. Such reserve can be used to offset a deficit or, when it has reached 50% of the paid-in capital, up to 50% thereof may be transferred to capital. The amount set aside is included under statutory reserve. During the year ended 31 December 2018, subsidiaries in Taiwan have transferred HK$Nil (2017: HK$11,000) to statutory reserves.

The laws and regulations in the Mainland China require wholly foreign owned enterprises established in the Mainland China to provide for statutory reserves which are appropriated from net profit, based on profit reported in the statutory accounts. Certain subsidiaries in the Mainland China are required to allocate at least 10% of their after-tax profit to statutory reserves until the reserves have reached 50% of their registered capital. Statutory reserves can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. During the year ended 31 December 2018, subsidiaries in the Mainland China have transferred HK$Nil (2017: HK$Nil) to statutory reserves.

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

(d) Translation reserve

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

(e) Share option reserve

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

(f) Remeasurements reserve

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

(g) Hedging reserve

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

(h) Contributed surplus

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

32. Share Option Schemes

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

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

32. Share Option Schemes (Continued)

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

Date of grant	Participant	Number of share options At 31 December 2018	Number of share options At 31 December 2017	Exercise price per share	Exercisable period
3 June 2013	Employees (in aggregate)	–	104,000	HK$3.92	3 June 2013 - 2 June 2018
		–	104,000	HK$3.92	3 June 2014 - 2 June 2018
		–	104,000	HK$3.92	3 June 2015 - 2 June 2018
		–	104,000	HK$3.92	3 June 2016 - 2 June 2018
9 June 2014	Employees (in aggregate)	**106,000**	106,000	HK$3.10	9 June 2014 - 8 June 2019
		106,000	106,000	HK$3.10	9 June 2015 - 8 June 2019
		106,000	106,000	HK$3.10	9 June 2016 - 8 June 2019
		106,000	106,000	HK$3.10	9 June 2017 - 8 June 2019
8 June 2015	Employees (in aggregate)	**135,000**	135,000	HK$2.97	8 June 2015 - 7 June 2020
		135,000	135,000	HK$2.97	8 June 2016 - 7 June 2020
		135,000	135,000	HK$2.97	8 June 2017 - 7 June 2020
		135,000	135,000	HK$2.97	8 June 2018 - 7 June 2020
9 May 2016	Employees (in aggregate)	**141,000**	141,000	HK$2.28	9 May 2016 - 8 May 2021
		141,000	141,000	HK$2.28	9 May 2017 - 8 May 2021
		141,000	141,000	HK$2.28	9 May 2018 - 8 May 2021
		141,000	141,000	HK$2.28	9 May 2019 - 8 May 2021
	Total	**1,528,000**	1,944,000		

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

Date of grant	Participant	Number of share options At 31 December 2018	Number of share options At 31 December 2017	Exercise price per share	Exercisable period
5 June 2017	Employees (in aggregate)	**239,000**	239,000	HK$1.68	5 June 2017 - 4 June 2022
		239,000	239,000	HK$1.68	5 June 2018 - 4 June 2022
		239,000	239,000	HK$1.68	5 June 2019 - 4 June 2022
		239,000	239,000	HK$1.68	5 June 2020 - 4 June 2022
25 June 2018	Employees (in aggregate)	**264,000**	–	HK$1.75	25 June 2018 - 24 June 2023
		264,000	–	HK$1.75	25 June 2019 - 24 June 2023
		264,000	–	HK$1.75	25 June 2020 - 24 June 2023
		264,000	–	HK$1.75	25 June 2021 - 24 June 2023
	Total	**2,012,000**	956,000		

32. Share Option Schemes (Continued)

Detailed movements of the share options granted pursuant to the 2007 Share Option Scheme and the 2016 Share Option Scheme during the year ended 31 December 2018 are as follows:

	2018		2017	
	Average exercise price per share *HK$*	**Number of options**	Average exercise price per share *HK$*	Number of options
As at 1 January	**3.83**	**2,900,000**	3.29	2,264,000
Granted	**1.75**	**1,056,000**	1.68	956,000
Lapsed	**3.92**	**(416,000)**	5.06	(320,000)
As at 31 December	**2.16**	**3,540,000**	3.83	2,900,000
Exercisable at 31 December	**2.20**	**2,129,000**	3.14	1,766,000

The options outstanding at 31 December 2018 had a weighted average remaining contractual life of 2.91 years (2017: 2.84 years).

The fair value of options granted during the year of 2018 determined using the Trinomial valuation model was HK$0.61 per option (2017: HK$0.56 per option). The significant inputs into the model are as follows:

	Year in which share options granted	
	2018	2017
Share price at the grant date	**HK$1.75**	HK$1.68
Exercise price	**HK$1.75**	HK$1.68
Dividend yield	**0%**	0%
Volatility	**38%**	38%
Annual risk-free interest rate	**2%**	1%

The volatility at the grant date, which measured the standard deviation of expected share price returns, is based on statistics of 260-week historical volatilities of comparable companies within the industry. The aggregate fair value of the above options granted during the year amounted to HK$645,000 (2017: HK$534,000) is to be recognised as employee benefit expense over the vesting periods together with a corresponding increase in equity. Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share options granted.

The total amount of employee benefit expense recognised in the consolidated statement of profit or loss for the year ended 31 December 2018 in relation to the 2007 Share Option Scheme and 2016 Share Option Scheme amounted to HK$70,000 (2017: HK$193,000) and HK$474,000 (2017: HK$287,000) respectively.

33. Financial Risk Management

33.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

For the years ended 31 December 2018 and 2017, sales of goods were mainly denominated in United States dollars, Euro, Pound Sterling and Renminbi. The major currencies for purchases were United States dollars, Renminbi and Euro. In addition, entities within the Group (whose functional currencies include Renminbi, Philippine Pesos, Thai Bahts and Vietnam Dongs) have monetary assets and liabilities denominated in Hong Kong dollars and United States dollars.

A. Hedges of foreign currency risk in forecast transactions

The Group has entered into forward foreign exchange contracts to hedge against foreign exchange exposures arising from United States dollars denominated processing income for factories in the PRC and Pound Sterling and Japanese Yen sales receipts of a European subsidiary. The Group designates the forward foreign exchange contracts as hedging instruments in cash flow hedges and does not separate the forward and spot element of a forward foreign exchange contract but instead designates the foreign forward exchange contract in its entirety in a hedging relationship. Correspondingly, the hedged item is measured based on the forward exchange rate.

The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the forward foreign exchange contracts and the highly probable forecast transactions based on their currency amounts and the timing of their respective cash flows. The main sources of ineffectiveness in these hedging relationships are:

(i) the effect of the counterparty's and the Group's own credit risk on the fair value of the forward foreign exchange contracts which is not reflected in the change in the value of the hedged cash flows attributable to the forward rate; and

(ii) changes in the timing of the hedged transactions.

33. Financial Risk Management (Continued)

The following table details the forward foreign exchange contracts that have been designated as cash flow hedges of the Group's highly probable forecast transactions at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
Notional amount		
– United States dollars	**551,980**	269,642
– Pound Sterling	**13,908**	57,919
– Japanese Yen	**3,191**	–

The forward foreign exchange contracts have a maturity ranged from 1 to 4 years from the reporting date and have an average forward exchange rate as follows:

	2018	2017
Renminbi to United States dollars	**6.7694**	6.5394
Pound Sterling to United States dollars	**–**	1.2885
Euro to Pound Sterling	**0.8815**	0.8835
Euro to Japanese Yen	**130.7750**	–

The following table provides a reconciliation of the hedging reserve in respect of foreign currency risk and shows the effectiveness of the hedging relationships:

	2018 HK$'000	2017 HK$'000
Balance at 1 January	**(6,344)**	(56,002)
Effective portion of the cash flow hedge recognised in other comprehensive income *(Note (i))*	**(14,477)**	43,063
Amounts reclassified to profit or loss	**8,706**	6,595
Balance at 31 December *(Note (ii))*	**(12,115)**	(6,344)

Notes:

(i) The amount represented the change in fair value of the forward foreign exchange contracts during the year.

(ii) The entire balance in the hedging reserve relates to continuing hedges.

B. Recognised assets and liabilities

In respect of other trade receivables and payables denominated in foreign currencies, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

C. Exposure to currency risk

At 31 December 2018, if Renminbi against Hong Kong dollars had strengthened/weakened by 5% with all other variables held constant, the post-tax loss for the year would be increased/decreased by HK$1,992,000 (2017: HK$791,000) mainly as a result of foreign exchange difference on translation of Hong Kong dollar denominated net monetary assets of certain PRC subsidiaries; while the other comprehensive income would be decreased/increased by HK$25,700,000 (2017: increased/decreased by HK$12,571,000), representing the impact of the change in fair value of forward foreign exchange contracts at the end of the reporting period.

At 31 December 2018, if Euro against Hong Kong dollars had strengthened/weakened by 5% with all other variables held constant, the post-tax loss for the year would be decreased/increased by HK$3,278,000 (2017: HK$4,173,000) as a result of foreign exchange difference on translation of Euro denominated monetary assets of a Hong Kong subsidiary; while the other comprehensive income would be decreased/increased by HK$863,000 (2017: increased/decreased by HK$2,014,000), representing the impact of the change in fair value of forward foreign exchange contracts at the end of the reporting period.

If Pound Sterling, Philippine Pesos, Thai Bahts and Vietnam Dongs had strengthened/weakened against Hong Kong dollars by 5% at the year end date with all other variables held constant, the impact on post-tax loss for the year would not be significant.

33. Financial Risk Management (Continued)

(ii) Liquidity risk

The Group has been prudent in liquidity risk management by maintaining sufficient cash and the availability of sufficient funding through an adequate amount of committed credit facilities from the Group's bankers.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The cash flow requirements for derivative financial instrument arising from forward foreign exchange contracts are separately provided as the contractual maturities are essential for the understanding of the timing of the cash flows.

	Within 1 year or on demand *HK$'000*	**More than 1 year but less than 2 years** *HK$'000*	**More than 2 years but less than 5 years** *HK$'000*	**More than 5 years** *HK$'000*	**Total** *HK$'000*
At 31 December 2018					
Accounts payable and bills payable	**166,179**	**–**	**–**	**–**	**166,179**
Accruals and other payables	**216,069**	**–**	**–**	**–**	**216,069**
Bank borrowings and interest payments	**73,900**	**–**	**–**	**–**	**73,900**
Licence fees payable	**16,514**	**27,876**	**142,010**	**282,083**	**468,483**
	472,662	**27,876**	**142,010**	**282,083**	**924,631**

	Within 1 year or on demand *HK$'000*	More than 1 year but less than 2 years *HK$'000*	More than 2 years but less than 5 years *HK$'000*	More than 5 years *HK$'000*	Total *HK$'000*
At 31 December 2017					
Accounts payable and bills payable	105,537	–	–	–	105,537
Accruals and other payables	184,163	–	–	–	184,163
Bank borrowings and interest payments	99,025	–	–	–	99,025
Licence fees payable	2,376	2,543	12,686	21,181	38,786
	391,101	2,543	12,686	21,181	427,511

All the Group's forward foreign exchange contracts outstanding at 31 December 2018 are net settlement contracts in hedge relationships. Contracts due to settle within 12 months require undiscounted contractual cash outflows of HK$8,350,000 (2017: HK$6,239,000). Contracts due to settle between 1 and 5 years require undiscounted contractual cash outflows of HK$5,178,000 (2017: HK$1,399,000). There is no gross settlement contract as at 31 December 2018 and 2017.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to accounts receivable. The Group's exposure to credit risk arising from cash and bank balances and derivative financial assets is limited because the counterparties are banks and financial institutions with sound credit ratings and the Group does not expect any significant credit risk. The Group does not provide any other guarantees which would expose the Group to credit risk.

Accounts receivable

The Group's sales are mainly on open account. Each open account customer is granted an approved credit limit and the Group closely and regularly monitors the credit default risk of receivables from customers. During the year ended 31 December 2018 and 2017, receivables from customers are substantially covered by credit insurance. At the end of the reporting period, 13% (2017: 15%) and 45% (2017: 48%) of the accounts receivable and bills receivable was due from the Group's largest customer and the five largest customers respectively in the garment manufacturing segment.

The Group measures loss allowances for accounts receivable at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for accounts receivable and bills receivable as at 31 December 2018:

	Expected loss rate **%**	**Gross carrying amount** ***HK$'000***	**Loss allowance** ***HK$'000***
Less than 3 months	–	295,927	–
3 months to 6 months	–	1,682	–
Over 6 months	100	1,790	1,790
		299,399	1,790

Expected loss rates are based on actual loss experience over the past 2 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

33. Financial Risk Management (Continued)

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see Note 2(w)(ii) – policy applicable prior to 1 January 2018). At 31 December 2017, accounts receivable and bills receivable of HK$1,764,000 were determined to be impaired. The aging analysis of accounts receivables and bills receivable that were not considered to be impaired was as follows:

	2017 *HK$'000*
Neither past due nor impaired	145,207
Less than 3 months past due	114,013
3 months to 6 months past due	5,644
	264,864

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

Movement in the loss allowance account in respect of accounts receivable and bills receivable during the year is as follows:

	2018 ***HK$'000***	2017 *HK$'000*
As at 1 January	**1,764**	2,415
Receivables written off during the year as uncollectible	**(943)**	138
Provision for/(reversal of) impairment	**969**	(789)
As at 31 December	**1,790**	1,764

33.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity shareholders and to maintain an optimal capital structure to reduce the cost of capital.

Total capital comprises "capital and reserves" as shown in the consolidated statement of financial position plus net borrowing, if any. During the years ended 31 December 2018 and 2017, the Group had no net borrowings, which is calculated as total borrowings less cash and bank balances.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity shareholders, return capital to equity shareholders, issue new shares or reduce debt.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

33.3 Fair value estimation

The fair value of derivative financial instruments (forward foreign exchange contracts) is determined using forward exchange market rates at the end of each reporting period. The fair value of financial assets and financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

For financial instruments measured at fair value in the statement of financial position, HKFRS 13, *Fair value measurement*, requires disclosure of fair value measurements according to the following fair value measurement hierarchy:

– Level 1 valuations: fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in the active markets for identical assets or liabilities at the measurement date.

– Level 2 valuations: fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs or which market data are not available.

– Level 3 valuations: fair value measured using significant unobservable inputs.

Forward foreign exchange contracts are measured at fair value and classified as level 2 valuations at 31 December 2018 and 2017. These forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. The effects of discounting are generally insignificant. There was no change in valuation techniques during the year.

There was no transfer of financial assets between fair value hierarchy classifications for the years ended 31 December 2018 and 2017. The Group's policy is to recognise transfers -between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The carrying amount of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2018 and 2017.

33.4 Offsetting financial assets and financial liabilities

There is no material offsetting, enforceable master netting arrangement and similar agreements during the year.

34. Commitments

(a) Operating lease commitments

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 **HK$'000**	2017 HK$'000
Within 1 year	**41,766**	27,193
After 1 year but within 5 years	**41,553**	16,880
After 5 years	**9,185**	5,560
	92,504	49,633

Significant leasing arrangements in respect of land held under operating leases are described in Note 15.

Apart from these leases, the Group is the lessee in respect of a number of properties held under short-term non-cancellable operating leases. Except for the lease in respect of a piece of land located in the Philippines and a factory located in the Republic Union of Myanmar over 5 years, other leases typically run for an initial period of 1 to 3 years, with an option to renew the lease when all terms are renegotiated.

Certain non-cancellable operating leases in respect of properties included above are subject to contingent rent payments, which are charged at amounts varying from 7% to 27% (2017: 11% to 21%) of the monthly gross takings at the leased premises in excess of the base rents as determined in the respective lease agreements. The above disclosure in respect of operating lease commitments for properties exclude contingent rent payments, which are not committed.

(b) Capital commitments

The Group had no capital commitments as at 31 December 2018 and 2017.

35. Related Party Transactions

(a) Transactions with related parties

The following is a summary of significant related party transactions which were carried out in the normal course of the Group's business:

	2018 **HK$'000**	2017 HK$'000
A related company		
– Rental expense *(Note)*	**6,649**	7,209

Note:

The entire issued share capital of TDB Company Limited ("TDB"), a related company, is held by a discretionary trust of which two directors of the Company are eligible beneficiaries. Rental expense was paid to TDB for the leasing of factory, storage and ancillary office and was determined by reference to the tenancy agreements entered.

(b) Transactions with key management

(i) Key management personnel remuneration

Remuneration of key management personnel of the Group including amounts paid to the Company's directors as disclosed in Note 12 and certain of the highest paid employees as disclosed in Note 13, is as follows:

	2018 **HK$'000**	2017 HK$'000
Salaries, allowances and bonuses	**18,134**	22,994
Defined contribution plans	**390**	611
Share-based compensation expense		
– share options granted	**360**	312
	18,884	23,917

Total remuneration is included in "employee benefit expenses" (see Note 11).

(ii) Advance to an employee

In June 2012, a subsidiary of the Group made a cash advance of HK$12,000,000 to a key management employee of the Group. Pursuant to the agreement and the amendment agreements dated in June 2013 and 2014, the cash advance is unsecured and bears interest at the Group's cost of borrowing. Cash advance of HK$3,500,000 plus related interest has been fully repaid in 2016. The remaining cash advance of HK$8,500,000 ("long-term portion") was to be waived by the subsidiary in equal amount semi-annually over a period of ten years commencing from the third year while the individual remains as an employee of the Group. Any unwaived principal plus related accrued interest will be repayable upon cessation of employment of the employee. The long-term portion regarded as prepaid staff benefit is included in other long-term assets (Note 17) and is amortised over twelve years from the date of the advance.

36. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of loss before tax to cash generated from operations:

	2018 HK$'000	2017 (Note) HK$'000
Loss before tax	(70,838)	(67,186)
Adjustments for:		
Depreciation on property, plant and equipment	57,624	53,006
Amortisation of leasehold land and land use rights	3,619	3,504
Amortisation of intangible assets	20,789	6,172
Derecognition of licence right upon early termination	20,973	–
Derecognition of licence fees payable upon early termination	(26,797)	–
Net loss on disposals of property, plant and equipment	65	1,908
Write-down inventories to net realisable value, net	29,863	300
Share-based compensation expense – share options granted	544	480
Provision for/(reversal of) impairment of receivables, net	969	(789)
Finance income	(3,574)	(4,457)
Finance costs	17,928	4,310
Effect of foreign exchange rate changes	(10,464)	5,092
Changes in working capital:		
(Increase)/decrease in inventories	(201,033)	10,458
(Increase)/decrease in accounts receivable and bills receivables	(33,714)	14,376
Decrease in prepayment other receivables	1,731	78,337
Increase in accounts payable and bills payable	60,642	17,408
Increase/(decrease) in accruals and other payables and contract liabilities	15,595	(16,967)
Increase in retirement benefits and other post retirement obligations	3,474	1,523
Cash (used in)/generated from operations	(112,604)	107,475

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

(b) The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	HK$'000
At 1 January 2017	198,905
Changes from financing cash flows:	
Proceeds from new bank borrowings	568,285
Repayment of bank borrowings	(668,319)
Interest paid	(2,826)
Other changes:	
Finance costs (*Note 7*)	2,826
At 31 December 2017	98,871

	HK$'000
At 1 January 2018	98,871
Changes from financing cash flows:	
Proceeds from new bank borrowings	697,200
Repayment of bank borrowings	(722,279)
Interest paid	(4,253)
Other changes:	
Finance costs (*Note 7*)	4,253
At 31 December 2018	73,792

37. Company-level Financial Information

(a) Company-level statement of financial position

	Note	2018 HK$'000	2017 HK$'000
Non-Current Assets			
Property, plant and equipment		184	498
Interests in subsidiaries		494,544	566,572
Deferred tax assets		114	83
		494,842	567,153
Current Assets			
Amounts due from subsidiaries		443,244	363,648
Prepayments and other receivables		613	457
Current tax recoverable		19	19
Cash and bank balances		9,155	10,319
		453,031	374,443
Current Liabilities			
Accruals and other payables		4,918	6,898
Amounts due to subsidiaries		4,711	4,742
		9,629	11,640
Net Current Assets		443,402	362,803
Net Assets		938,244	929,956
Capital and Reserves			
Share capital	30	27,161	27,161
Reserves	37(b)	911,083	902,795
Total Equity		938,244	929,956

37. Company-level Financial Information (Continued)

(b) Movements in components of equity

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share premium *HK$'000*	Share option reserve *HK$'000*	Contributed surplus *HK$'000*	General reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
As at 1 January 2018	**14,449**	**1,658**	**321,020**	**110,000**	**455,668**	**902,795**
Comprehensive income						
Profit for the year	**–**	**–**	**–**	**–**	**7,744**	**7,744**
Total comprehensive income	**–**	**–**	**–**	**–**	**7,744**	**7,744**
Transactions with owners						
Share option scheme						
- value of employee services	**–**	**544**	**–**	**–**	**–**	**544**
Share options granted to employee lapsed	**–**	**(320)**	**–**	**–**	**320**	**–**
Total transactions with owners	**–**	**224**	**–**	**–**	**320**	**544**
As at 31 December 2018	**14,449**	**1,882**	**321,020**	**110,000**	**463,732**	**911,083**

	Share premium *HK$'000*	Share option reserve *HK$'000*	Contributed surplus *HK$'000*	General reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
As at 1 January 2017	14,449	1,509	321,020	110,000	440,993	887,971
Comprehensive income						
Profit for the year	–	–	–	–	14,344	14,344
Total comprehensive income	–	–	–	–	14,344	14,344
Transactions with owners						
Share option scheme						
- value of employee services	–	480	–	–	–	480
Share options granted to employee lapsed	–	(331)	–	–	331	–
Total transactions with owners	–	149	–	–	331	480
As at 31 December 2017	14,449	1,658	321,020	110,000	455,668	902,795

38. Comparative Figures

The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2(c).

39. Immediate and Ultimate Holding Company

At 31 December 2018, the directors consider the immediate parent and ultimate holding company of the Group to be Silver Tree Holdings Inc. and New Perfect Global Limited respectively, both of which are incorporated in the British Virgin Islands. These entities do not produce financial statements available for public use.

40. Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Year Ended 31 December 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

HKFRS 16, *Leases*

As disclosed in Note 2(u), currently the Group enters into leases as the lessee and classifies its leases as operating leases. Once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases.

Subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in Note 34(a), at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to HK$92,504,000, part of which is payable either between 1 and 5 years after the reporting date or in more than 5 years.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

41. Particulars of Principal Subsidiaries, all of which are Unlisted, as at 31 December 2018

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
338 Apparel Limited	Hong Kong	Hong Kong	Branded product trading	HK$1,000,000	–	100%	100%
338 Fashion Co. Limited	Hong Kong	Hong Kong	Branded product distribution and retail	HK$3,000,000	–	100%	100%
338 Fashion (Macau) Company Limited	Macau	Macau	Branded product distribution and retail	MOP25,000	–	100%	100%
Action Ease Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
All Asia Garment Industries, Inc.	The Philippines	The Philippines	Factory facilities leasing	P27,425,000	–	100%	100%
All Asia Industries Co., Ltd. *(Note (i))*	PRC	PRC	Garment manufacturing	HK$53,500,000	–	100%	100%
Apparel Trading & Property Ventures, Inc.	The Philippines	The Philippines	Investment holding	P7,500,000	–	100%	100%
Brilliant Idea International Limited	Hong Kong	Hong Kong	Investment holding	HK$100	–	100%	100%
昇韻管理咨詢 (深圳) 有限公司 *(Note (i))*	PRC	PRC	General administrative and supporting services	RMB500,000	–	100%	100%
Broad Ease Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
Cissonne (Shanghai) Enterprises Co., Ltd. *(Note (i))*	PRC	PRC	Branded product distribution and retail	RMB1,000,000	–	100%	100%
Cissonne Hong Kong Limited	Hong Kong	Hong Kong	General trading	HK$1	–	100%	100%
Dress Line Holdings, Inc.	The Philippines	The Philippines	Investment holding	P59,562,500 (common)	–	100%	100%
				P192,930,189 (preferred) *(Note (ii))*	–	100%	100%
Elite Fashion (Hong Kong) Limited	Hong Kong	Hong Kong	Investment holding	HK$2	–	95%	95%
Excellent Jade Limited	Hong Kong	Hong Kong	Garment trading and manufacturing	HK$10,000	–	100%	100%
Excellent Quality Apparel, Inc.	The Philippines	The Philippines	Garment manufacturing	P40,000,000	–	100%	100%
Gold Flower Limited	Hong Kong	Hong Kong	General administrative and supporting services	HK$10,000	–	100%	100%
Great Horizons Property Ventures, Inc.	The Philippines	The Philippines	Investment holding	P35,000,000 (common)	–	100%	100%
				P3,000,000 (preferred) *(Note (ii))*	–	100%	100%

41. Particulars of Principal Subsidiaries, all of which are Unlisted, as at 31 December 2018

(Continued)

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
Guangzhou Excellent Fashion Design Company Limited *(Note (i))*	PRC	PRC	Garment design and provision of technical services	RMB1,500,000	–	100%	100%
Guangzhou Tristate Industrial Co., Ltd. *(Note (i))*	PRC	PRC	Garment manufacturing	HK$18,500,000	–	100%	100%
Hefei Tristate Garment Manufacturing Company Limited *(Note (i))*	PRC	PRC	Garment manufacturing	RMB105,000,000	–	100%	100%
合肥賢法服裝有限公司 *(Note (i))*	PRC	PRC	General trading	RMB1,000,000	–	100%	100%
HFT Corp. Limited	Hong Kong	Hong Kong	Investment holding	HK$10,000,000	–	100%	100%
Honest Point Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
Hua Thai Manufacturing Public Company Limited	Thailand	Thailand	Garment manufacturing and exporting	THB100,000,000	–	99.87%	99.87%
Hwa Fuh Manufacturing Company (Hong Kong) Limited	Hong Kong	Hong Kong	Investment holding	HK$55,180,219	–	100%	100%
Joint Holdings & Trading Company Limited	Hong Kong	Hong Kong	Investment holding	HK$925 (ordinary)	–	100%	100%
				HK$7,200,075 (deferred) *(Note (iii))*	–	100%	100%
Keybird Limited	Hong Kong	Hong Kong	Investment holding	HK$3,000,000	100%	–	100%
Keyear Company Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	100%	–	100%
Maxride Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
Prime-Time Company Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
Prosperous Year International Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Quality Time Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	100%	–	100%
Shanghai Tristate Enterprises Co., Ltd. *(Note (i))*	PRC	PRC	Branded product distribution and retail	RMB180,000,000	–	100%	100%
Sharp Hero International Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Shiny Ease Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	95%	95%
Sigsbee Investment Limited	The Republic of Liberia	Hong Kong	Investment holding	US$1	100%	–	100%
Sparkling Ocean Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	100%	–	100%
Strong Pine Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	100%	–	100%
Tenmo Limited	Hong Kong	Hong Kong	Investment holding	HK$2,000,000	100%	–	100%

41. Particulars of Principal Subsidiaries, all of which are Unlisted, as at 31 December 2018

(Continued)

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
Timely Corporate Limited	Hong Kong	Hong Kong	Nominee and secretarial services	HK$1	100%	–	100%
Trinovation Italy S.r.l.	Italy	Italy	Product design and development	EUR120,000	–	95%	95%
Tristate Cissonne Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Tristate Cissonne International Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Tristate Cissonne IP Limited	British Virgin Islands	Hong Kong	Trademark holding	US$1	–	100%	100%
Tristate EFM Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Tristate EFM International Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Tristate EFM IP Limited	British Virgin Islands	Hong Kong	Trademark holding	US$1	–	100%	100%
Tristate Industrial Co., Ltd.	Taiwan	Taiwan	Sales liaison services	NT$20,000,000	–	100%	100%
Tristate International SA	Switzerland	Switzerland	General trading and marketing	CHF1,600,000	–	95%	95%
Tristate Italy S.r.l.	Italy	Italy	Trading of apparel and accessories	EUR400,000	–	95%	95%
Tristate Japan, Inc.	Japan	Japan	Garment trading and distribution	JPY5,000,000	–	95%	95%
Tristate Myanmar Company Limited	The Republic of the Union of Myanmar	The Republic of the Union of Myanmar	Garment manufacturing	US$1,126,322	–	100%	100%
Tristate Trading Limited	Malaysia	Macau	Garment trading	US$1	–	100%	100%
Tristate Trading (Hong Kong) Limited (formerly known as "Tristate EFM Hong Kong Limited")	Hong Kong	Hong Kong	General trading	HK$1	–	100%	100%
Tristate Tri-novation Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
Tristate Tri-novation Hong Kong Limited	Hong Kong	Hong Kong	Investment holding	HK$1	–	95%	95%
Tristate Trinovation IP S.à r.l.	Luxembourg	Luxembourg	Trademark holding and licensing	EUR12,500	–	95%	95%
Tristate US Inc.	United States of America	United States of America	Branded product distribution and retail	US$1	–	100%	100%
TT&Co Asia Limited	Hong Kong	Hong Kong	General trading	HK$10,000	–	100%	100%
Upgain Limited	British Virgin Islands	Hong Kong	Investment holding	US$16,000,000	–	99.87%	99.87%
Upgain (Vietnam) Manufacturing Company Limited	Vietnam	Vietnam	Garment manufacturing	US$4,000,000	–	100%	100%
Velmore Holdings Limited	England	England	Investment holding	GBP558,335.60	–	100%	100%

41. Particulars of Principal Subsidiaries, all of which are Unlisted, as at 31 December 2018
(Continued)

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding		
					by Company	by subsidiary	by Group
Velmore Limited	England	England	Design and customer support services	GBP30,000	–	100%	100%
Winner Wealth Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%

Notes:

(i) A wholly foreign owned enterprise established in the PRC.

(ii) The holders of the preferred shares are entitled to receive the same dividends as the common shares and have no right to vote at any general meeting of the company. The preferred shares are redeemable subject to the terms and conditions determined by the board of directors of the company and have preference over common shares in the distribution of assets of the company in the event of liquidation.

(iii) The holders of the deferred shares are not entitled to receive any dividends or other distributions and have no right to vote at any general meeting of the company. They are not entitled to participate in any profits or assets of the company unless upon a winding up, in that case, the holders of the deferred shares have the right to receive the amount paid up on such deferred shares to be paid out of the surplus assets of the company in accordance with its articles of association.

None of the subsidiaries had any loan capital in issue at any time during the years ended 31 December 2018 and 2017.