KAM HING INTERNATIONAL HOLDINGS LIMITED
錦興國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 02307

2018
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Tai Chin Chun *(Chairman)*
Mr. Tai Chin Wen *(Chief Executive Officer)*
Ms. Cheung So Wan
Ms. Wong Siu Yuk
Mr. Chong Chau Lam

Non-Executive Director

Dr. Wong Wai Kong

Independent Non-Executive Directors

Mr. Ho Gilbert Chi Hang
Mr. Ting Kay Loong
Mr. Wu Tak Lung

COMPANY SECRETARY

Mr. Lei Heong Man

AUDITOR

Ernst & Young
Certified Public Accountants

REGISTERED OFFICE

Cricket Square
Hutchins Drive,
P.O. Box 2681,
Grand Cayman KY1-1111,
Cayman Islands

COMPANY WEBSITE

www.kamhingintl.com

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

23A, TML Tower,
No. 3 Hoi Shing Road,
Tsuen Wan, New Territories,
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited
Bank of China (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited
Cricket Square,
Hutchins Drive,
P.O. Box 2681,
Grand Cayman KY1-1111,
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

STOCK CODE

The Stock Exchange of Hong Kong Limited: 02307

FINANCIAL HIGHLIGHTS AND SUMMARY

KEY FINANCIAL DATA

	For the year ended/As at 31 December				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018** **HK$'000**
Revenue	3,985,699	4,152,733	3,662,622	4,192,896	**4,650,958**
EBITDA *(note 1)*	465,664	465,346	461,296	461,240	**494,174**
Equity attributable to ordinary equity holders of the Company	2,026,038	1,991,490	1,820,054	2,050,158	**1,941,483**
Net profit attributable to ordinary equity holders of the Company *(notes 2, 3, 4, 5)*	70,749	57,714	74,995	62,835	**73,182**
Dividends per share (HK cents)	1.3	1.5	1.5	1.5	**1.5**

KEY FINANCIAL RATIOS

	For the year ended/As at 31 December				
	2014	2015	2016	2017	**2018**
Gross profit margin (%)	14.4	15.4	13.9	12.3	**12.5**
Net profit margin (%)	2.1	1.5	2.0	1.5	**1.5**
Gearing ratio (net debt/capital and net debt) (%)	50.6	51.8	53.2	52.1	**55.9**

Notes:

(1) EBITDA refers to profit before interest, tax, depreciation and amortisation

(2) Excluding the one-off gain of HK$10.3 million in relation to the disposal of a joint venture in 2014

(3) Excluding the one-off gain of HK$0.5 million in relation to the disposal of subsidiaries in 2015

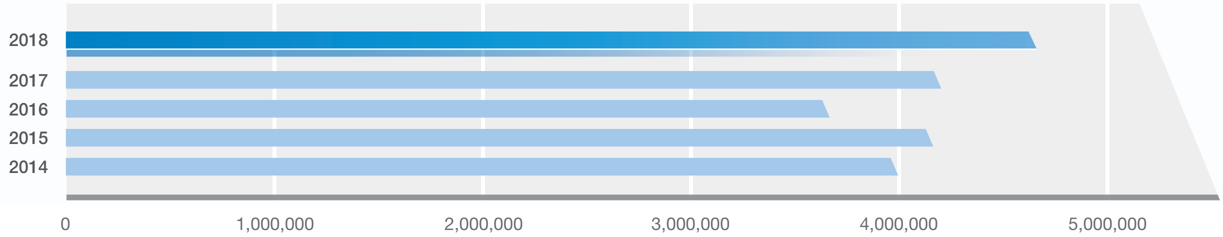
(4) Excluding the one-off gain, net, of HK$1.7 million in relation to the deregistration of subsidiaries in 2017

(5) Excluding the one-off loss of HK$0.4 million in relation to the deregistration of subsidiaries in 2018

FINANCIAL HIGHLIGHTS AND SUMMARY

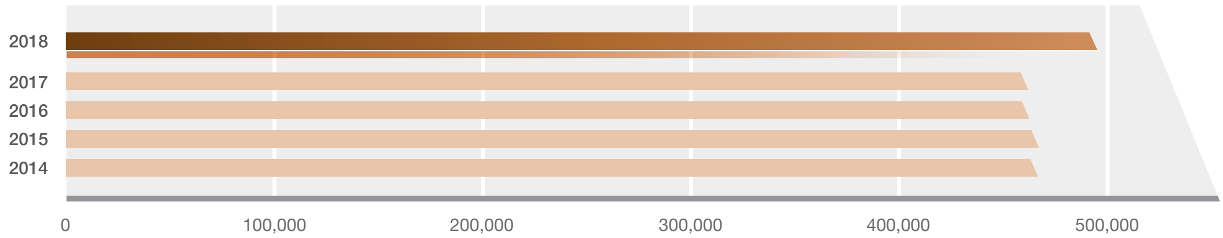
REVENUE

HK$'000



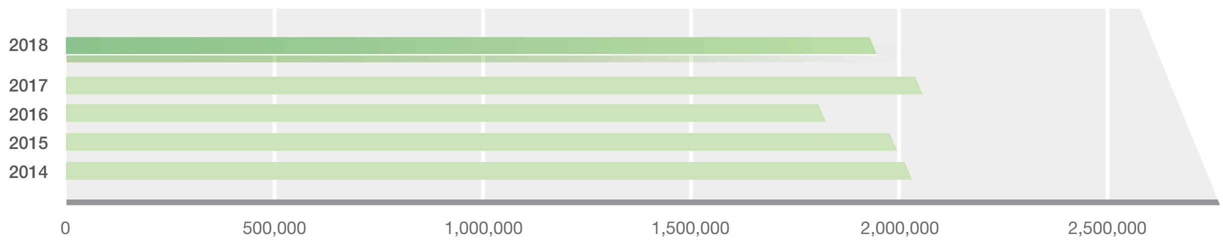
PROFIT BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION ("EBITDA")

HK$'000



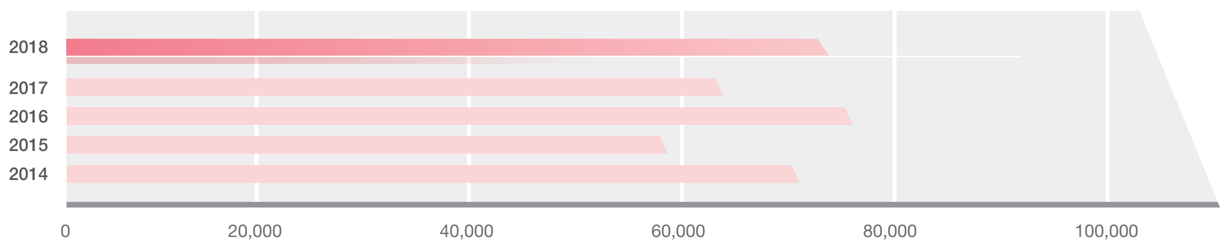
SHAREHOLDERS' FUNDS

HK$'000

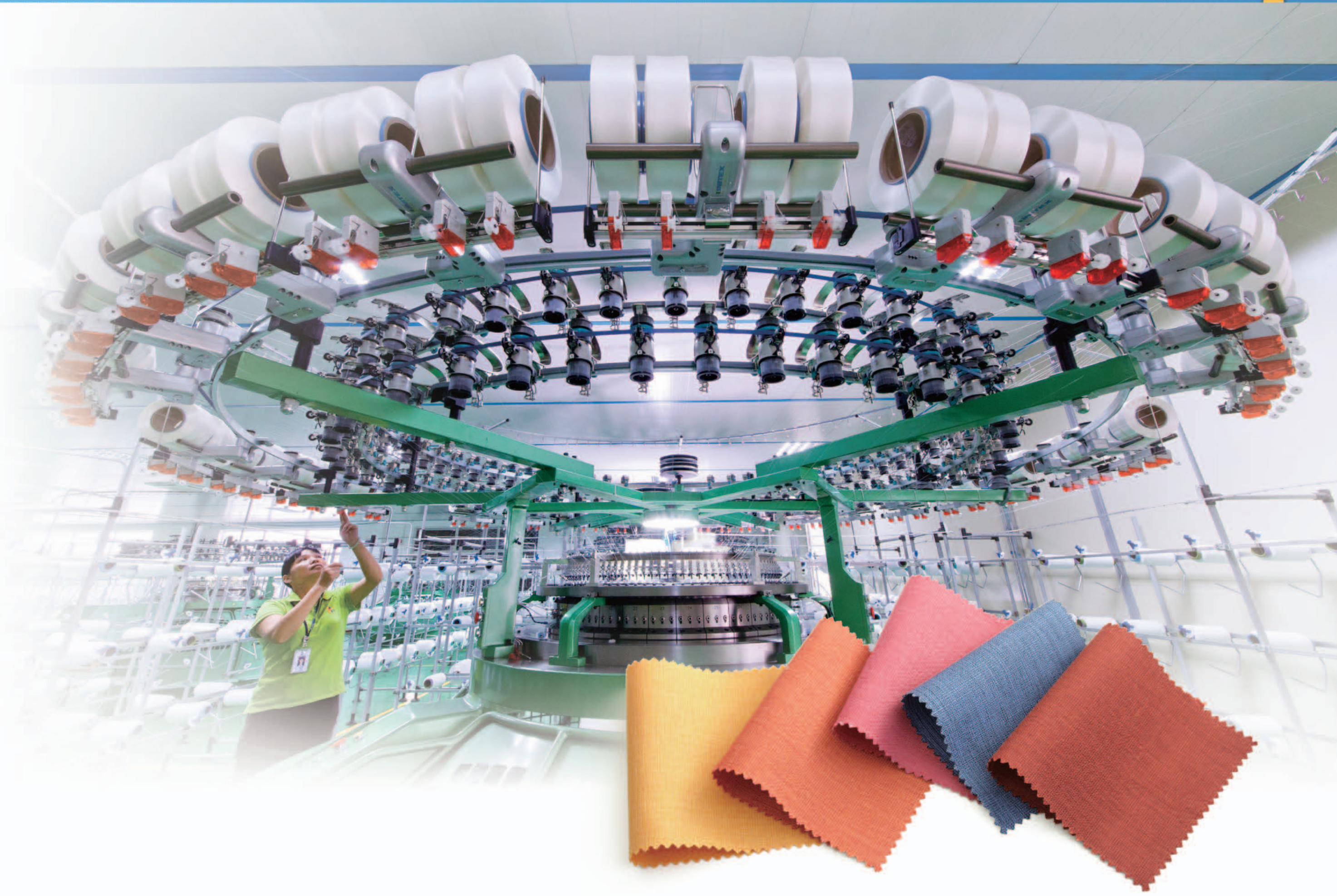


NET PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

HK$'000



CHAIRMAN'S STATEMENT



On behalf of the board of Directors (the "Board") of Kam Hing International Holdings Limited (the "Company", together with its subsidiaries, collectively the "Group"), I am pleased to present to our valued shareholders the annual results of the Group for the year ended 31 December 2018 (the "Year").

During the Year, Chinese textile industry generally maintained a healthy development, despite the looming trade relationship between the United States ("the U.S.") and China. In early 2018, global economy saw a strong growth momentum with frequent economic activities and positive consumer sentiment, especially in the U.S., our largest end-market which contributed 59.7% of our revenue in fabric business (2017: 63.7%). Such positive economic factors boosted Chinese textile exports, until the escalating trade war between the U.S. and China bolstered the negative market sentiment in the second half of the Year.

Heightened uncertainties in the world's economy have encouraged Chinese textile suppliers to shift their business focus back to the domestic market, despite the fact that many textile manufacturers which failed to meet the tightening environmental regulations were forced to close in the course of market consolidation. Successfully, the Group also increased its efforts in exploring the domestic market, and recorded a 53% year-on-year increase in the revenue contribution from end-market customers in China, which contributed 27.0% of the Group's revenue in 2018 and continued to be our second-largest end-market (2017: 20%).

In addition to diversifying risk in different region, our Group has launched a downstream business for textile and apparel industry. By investing in garment business started from 2017, our garment operation in Cambodia has developed rapidly. This brings a growth point to our Group's revenue. During the Year, revenue from garment business amounted to approximately HK$205.6 million which is approximately 4.4% of total sales of the Group.

CHAIRMAN'S STATEMENT

With such volatile business environment, we are pleased to demonstrate our operating excellence with a set of satisfactory financial performance during the Year. The overall sales grew 10.9% year-on-year. These were contributed by the growth in sales in fabric with 6.3% and remaining from newly launched garment business. We are also grateful that we enhanced gross profit by 12.3% to HK$580.7 million (2017: approximately HK$517.0 million) after strategically optimising our customer portfolio.

The Board has resolved to propose the payment of a final dividend of HK1.5 cents per share (2017: HK1.5 cents), subject to the approval by the shareholders at the forthcoming annual general meeting of the Company.

Reviewing our business in 2018, the Group constantly showed resilience and continuous enhancement in its competitiveness. Against the backdrop of trade war, customers were seen destocking, shortening order lead time to reserve cash on hand and maintain high liquidity. The Group was able to adjust its strategy in time and managed to gain an increase in sales orders by upgrading its customers mix with reputable enterprises and by further penetration into domestic market, in order to improve its profitability and mitigate the risks of overreliance on the U.S and European market. In terms of capacity expansion, the new garment factory in Cambodia ramped up gradually in 2018, and started making revenue contribution to the Group during the Year. Concurrently, the Group extended its footprint to Vietnam by leasing a land plot of 100,000 square meters for new textile production facilities, to further diversify its production base to South East Asian countries to lower its labour costs and regional risks. It is expected to commence construction blueprint in the second half of 2019.

PROSPECTS

Under the unsolved trade dispute between the U.S. and China, Chinese textile market is still clouded with uncertainties and challenges. We are prudently monitoring the global economic trend, actively securing orders from both overseas and domestic customers, as well as carrying out the following development strategies progressively:

- **Strengthening our position as an integrated textile solution provider in Asia**

  The Group successfully formed a strategic production chain in Asia, including our core fabric knitting facilities in Panyu and Enping in China, the garment factories in Cambodia, as well as a textile factory in Vietnam under planning. We aim to integrate these production plants, fully utilise the geographical advantages and resources, and ultimately offer comprehensive textile solutions and good values to our customers.

- **Enlarging market presence in China to capture enormous opportunities**

  Currently, China is the second-largest market for the Group, with tremendous growth potential backed by its consumption upgrade. According to the figures released by Euromonitor, China's adult garment market value is expected to reach RMB1,592 billion by 2019. Anticipating continuous progress in economic reforms and Chinese consumers' increasing pursuit for high-quality lifestyle, consumption upgrade will be the main driving force for the economic vitality, which will benefit Chinese textile and garment industry. Foreseeing the trend, we are penetrating into China's market with focus on higher end products and customers with good credibility.

- **Upholding the core values to enhance competitiveness**

  In the highly complex and dynamic economic environment, we will strictly adhere to the Group's core business values for enhancing our competitive edges, which are (1) improving product quality; (2) introducing technology for production innovations; (3) ensuring on-time delivery by production process optimisation; and (4) securing sustainable and reliable partnership. We have also reserved capital for upgrading machines and technologies in preparation for the fast changing market.

We believe that flexibility is crucial for the business. Going forward, we will cautiously review our strategies whilst preserve healthy cash flow for any unprecedented market changes.

APPRECIATION

Taking this opportunity, I would like to extend my gratitude to the Board, the management and all of our staff for their dedication and commitment, as well as our business partners, customers and shareholders for their continuous support for the Group during the Year.

Tai Chin Chun
Chairman

28 March 2019

MARKET REVIEW

In the first half of 2018, the U.S. experienced prosperous economic development and restored consumer confidence, while trade frictions with China embedded gloom in the second half of 2018. The U.S. consumer sentiment index averaged 98.4 in 2018, hitting the highest since 2000; at the same time, the U.S. unemployment rate dropped to a 49-year low of 3.7% in September and November, with an average of approximately 3.9% in 2018. Improvement in the U.S. employment and wage growth that boosted household spending power drove strong U.S. retail sales; therefore, a handful of U.S. apparel retailers have reported sales growth on a yearly basis. Yet, the escalation of the U.S-China trade war cast shadow on the macroeconomic environment, especially after the U.S. released a list of tariff on an amount of USD$200 billion of Chinese goods in July 2018, officially kicking off the trade war against China. The U.S. textile and garment enterprises then reacted with more prudent procurement strategy in preparation for the possible trade dispute and global economic slowdown.

In China, domestic demand for necessities remained robust as the central government started to publish a series of guidelines to encourage consumer spending and expand domestic demand in the second half of 2018. Consumption upgrade gave rise to the prosperity of high quality apparel, as well as women's and children's apparel markets. Taking this opportunity, the Group successfully gained a considerable amount of orders from China.

Among numerous textile manufacturers in China, rounds of market consolidation have phased out unqualified market players that were unable to meet either environmental or quality standards. Highly competitive players like the Group has stood out riding on its proven competence and strategies. Given the fact that some of the manufacturing clusters have been moving to Southeast Asia, the Group also accelerated its pace in its geographical expansion to buffer the effects of the possible export market shrinking of China and other adverse influences brought by the trade war.

BUSINESS OVERVIEW

During the Year, the Group is pleased to present a consecutive positive yearly growth. The overall revenue for the Year recorded a year-on-year growth of 10.9%, increased from HK$4,192.9 million in 2017 to HK$4,651.0 million in 2018. Due to the continued optimisation of its customer mix, the Group recorded a 12.3% rise in gross profit, increased from HK$517.0 million in 2017 to HK$580.7 million in 2018. Gross profit margin exhibited a mild increase of 0.2 percentage point from 12.3% in 2017 to 12.5% in 2018 as a result of the increase in unit price together with continuous optimisation of clientele. Profit attributable to ordinary equity holders of the Company for the Year amounted to HK$72.8 million for 2018, representing a growth of 12.7% from HK$64.6 million in 2017. The basic earnings per share for the Year was HK8.4 cents, increased by 13.5% when compared with HK7.4 cents in 2017.

For year 2018, sales generated from the fabric business and garment business were HK$4,445.4 million and HK$205.6 million respectively, accounted for 95.6% and 4.4% of the overall revenue respectively. The Group continued to be one of the beneficiaries of the market consolidation with lessening supply capacity in China. With the knitted and functional fabrics manufactured in the two production plants in Enping and Panyu in China, as well as the garment produced in the new factory in Cambodia, orders were processed within the Group's production bases with better and shorter production schedules with ensured product quality during the Year. This is one of the Group's core values to attract customers and reinforce its competitiveness in pricing and gaining bulk orders from global brand customers. With sufficient order flow during the Year, the Group was selective in taking higher-margin orders with an aim to diversify and optimise its customer portfolio, thus effectively improving its production output and profitability. Despite the newly ramped up garment sector not yet reaching breakeven point in 2018, the fabric sector recorded a growth of 6.3% in revenue and 10.5% in profit before tax which were contributed by customer portfolio optimisation.

By analysing Group's end-market, the U.S. was still the Group's largest end-market with 59.7% revenue contribution, while China ranked the second largest end-market with 27.0%. China's market has been enlarging as it is supported by a series of policies to boost domestic consumption demand, leading to the growth of the apparel market, particularly for women's and children's wear. In order to further enhance the composition of its end markets and to avoid developing any reliance on certain countries, the Group continued to extend its business footprints around the globe.

To diversify any regional economic and political risks, the Group signed a land lease principle contract to lease land of about 100,000 square metres in Vietnam in September 2018 for building a complex of textile plants and warehouses. The site is located at Nam Dinh Province, which is the biggest textile and garment province in Vietnam and is the economic focal point in the South of Red River Delta region. It is also well-connected to the major economic and political centres in Vietnam by expressway and roads. Given its proximity with the current production facilities of the Group and the maturity of its infrastructure, the new Vietnam production base will be a good support to the Group's capacity to capture the trust and orders from global brand customers. The construction of facilities is under planning at present and is expected to commence construction in the second half of 2019.

PROSPECTS

Stepping into 2019, the Group is prudent and cautious about the outlook of the textile industry as well as the impacts of the U.S.- China trade turbulence. With no direct impact on the Group's order backlog and raw material supply, the Group tends to maintain a stable level of inventory and to stay financially healthy with strong cash flow.

Facing the fast-changing external environment, the Group is determined to remain competent in fulfilling orders with premium quality under tight schedules. The Group will keep on strengthening its competitive edge by effectively allocating resources among its production bases to enhance its overall efficiency, focusing on research and development for new and value-added products for quality customers to improve profitability, and expanding to new markets and regions to mitigate operational risks.

In early 2018, the Group initiated a residential property project with its 108-mu land in Enping, Guangdong province. However, a slowdown in the Chinese property market was observed in the middle of the Year. The data lately released by the National Bureau of Statistics shows the annual growth rate of new homes sales volume cooled down to 1.3% in 2018 as compared to 7.7% in 2017. As the public held off from buying new homes, the Group decided to decelerate the construction and postpone its pre-sale schedule. The Group will stay alert to the policy enforcement at the central and local level and speed up the project at the most appropriate time, for it is important to fully rejuvenate the true asset value of this land, which is located in the Greater Bay Area with great potential, for the benefit of the Company's shareholders.

FINANCIAL REVIEW

Revenue

Overall sales turnover achieved approximately HK$4,651.0 million, representing an increase of approximately 10.9% as compared with last year (2017: approximately HK$4,192.9 million). During the Year, there was a significant increase in revenue from garment business which started in last year. Revenue from garment products segment increased to approximately HK$205.6 million (2017: approximately HK$11.2 million). Revenue from fabric products segment increased by approximately HK$263.7 million or 6.3% which was due to increase in sales volume and average selling price.

Gross Profit and Gross Profit Margin

Gross profit was approximately HK$580.7 million, representing an increase of approximately 12.3% from last year (2017: approximately HK$517.0 million). Gross profit margin increased slightly to approximately 12.5% (2017: approximately 12.3%), which was mainly attributable to increased unit price together with continuous optimisation of clientele.

Other Income and Expenses

Other income of approximately HK$37.9 million (2017: approximately HK$49.9 million) mainly comprised approximately HK$1.4 million (2017: approximately HK$3.1 million) from sales of excess steam generated by the power plant to nearby facilities in the district, approximately HK$8.5 million (2017: approximately HK$8.8 million) from fee on air and ocean freight, and approximately HK$13.2 million (2017: approximately HK$7.9 million) from income received from sewage treatment provided, and approximately HK$6.1 million (2017: approximately HK$9.4 million) from subsidy income from the People's Republic of China (the "PRC") government. The remaining balance was primarily the result of insurance claims, sales of scrap, rental income and bank interest income, etc.

Selling and distribution expenses increased to approximately HK$122.8 million (2017: approximately HK$112.6 million), which is in line with the increase in revenue. Also, the Group increased spending in order to expand garment business during the Year. Administrative expenses, which included salaries and welfare, depreciation and other related expenses, slightly increased to approximately HK$314.0 million (2017: approximately HK$305.0 million).

Finance Costs

Finance costs, which included an amortisation of syndicated loan charges, interest on long-term loans from banks, bank overdraft and finance lease interests, increased by approximately 20.1% to approximately HK$71.7 million (2017: approximately HK$59.7 million) as compared with last year. The increase was primarily due to increase in interest borrowing rate and increase in bank loan borrowing during the Year.

Net Profit and Net Profit Margin

Net profit attributable to ordinary equity holders of the Company for the Year was approximately HK$72.8 million, representing a year-on-year increase of approximately 12.7% (2017: approximately HK$64.6 million). The increase in net profit was mainly due to customer portfolio optimisation on fabric sector. Net profit margin remained stable approximately 1.5% (2017: approximately 1.5%).

Liquidity and Financial Resources

As at 31 December 2018, the Group's net current assets were approximately HK$657.5 million (2017: approximately HK$895.0 million). The decrease in net current assets was mainly due to reclassification of the first repayment of syndicated loan in September 2019 to current liabilities. The Group will constantly review its financial position and maintain a healthy financial position by financing its operations from internally generated resources and long-term bank loans. As at 31 December 2018, the Group had cash and cash equivalents of approximately HK$558.2 million (2017: approximately HK$421.7 million). Current ratio as at 31 December 2018 was approximately 1.3 times (2017: approximately 1.6 times).

As at 31 December 2018, total bank and other borrowings of the Group were approximately HK$2,003.6 million (2017: approximately HK$1,794.8 million). The Group's net debt gearing ratio (i.e. net debts divided by the sum of equity and net debts) was at approximately 55.9% (2017: approximately 52.1%). Net debts comprise all interest-bearing bank and other borrowings, accounts and bills payable, an amount due to an associate and accrued liabilities and other payables less cash and cash equivalents. Sum of equity comprises owners' equity as stated in the consolidated financial statements.

Debtors' turnover period, inventory turnover period and creditors' turnover period for the Year was 77.7 days (2017: 73.7 days), 101.1 days (2017: 115.6 days) and 70.1 days (2017: 65.6 days) respectively. The increase in debtors' turnover period was mainly due to increase in sales to PRC customers with relatively long credit period. The decrease in inventory turnover period was mainly due to improvement in inventories management to shorten the length of inventories storage. The increase in creditors' turnover period was mainly due to increase in procurement in the fourth quarter of the Year in order to meet the delivery schedule in first quarter of 2019.

Financing

As at 31 December 2018, the total banking and loan facilities of the Group amounted to approximately HK$5,463.5 million (2017: approximately HK$4,959.9 million), of which approximately HK$2,380.0 million (2017: approximately HK$2,069.8 million) was utilised.

As at 31 December 2018, the Group's long-term loans were approximately HK$827.6 million (2017: approximately HK$1,088.0 million), comprising syndicated loan and term loans from banks.

Dividend

The Company has adopted a policy which sets out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to the shareholders of the Company. In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value. There is no pre-determined dividend payout ratio and the declaration and distribution of dividends shall be determined at the sole discretion of the Board taking into account, among others, the financial results, cashflow situation, future operations, capital requirements and any other factors that the Board may consider relevant. The declaration and distribution of dividends shall also be subject to the articles of association of the Company and all applicable laws and regulations. The Board will review the policy from time to time and make relevant amendments as necessary.

The Board has resolved to recommend the payment of a final dividend of HK1.5 cents (2017: HK1.5 cents) per share for the Year and will be payable to the shareholders whose names appear on the register of members of the Company on Monday, 10 June 2019. Subject to the approval of shareholders regarding the payment of the final dividend at the forthcoming annual general meeting of the Company, the proposed final dividend will be paid on or about Wednesday, 3 July 2019.

Capital Structure

The capital structure of the Company is composed of equity and debt.

As at 31 December 2018, there has been no change in the capital structure of the Company. The share capital of the Company comprises only ordinary shares.

Foreign Exchange Risk and Interest Rate Risk

Approximately 60.9% (2017: approximately 62.3%) of the Group's sales was denominated in U.S. dollars. The remaining sales were denominated in Hong Kong dollars, Renminbi and euros (2017: Hong Kong dollars and Renminbi). The majority of the Group's costs of sales were denominated in U.S. dollars, Hong Kong dollars and Renminbi. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily in respect to the Renminbi. The exchange rates of other currencies were relatively stable throughout the Year and immaterial on our cost structure. The management closely monitors the foreign exchange movements and determines the appropriate hedging activities when necessary.

The Group's borrowings were mainly maintained at a floating rate basis. The management will pay attention to the interest rate movement and employed necessary hedging instruments in a prudent and professional manner.

Charge of Group's Assets

As at 31 December 2018, certain of the Group's land and buildings with a net carrying amount of approximately HK$56.8 million (2017: HK$60.4 million) were pledged to secure a bank loan of HK$9.9 million (2017: 15.6 million) granted to the Group.

Capital Expenditure

During the year, the Group invested approximately HK$316.6 million (2017: approximately HK$321.9 million) in capital expenditure of which approximately 77.0% (2017: approximately 77.5%) was used for the purchase of plant and machinery, approximately 5.7% (2017: approximately 13.2%) was used for the construction of new factory premises, and the remaining was used for the purchase of other property, plant and equipment, prepaid land lease payments and deposit for land use right.

As at 31 December 2018, the Group had capital commitments of approximately HK$33.7 million (2017: approximately HK$56.3 million) in property, plant and equipment and approximately HK$184.2 million (2017: approximately HK$194.1 million) in construction of new manufacturing facilities. The Group also had commitments of approximately HK$15.3 million (2017: Nil) in relation to the construction of properties under development. All are funded or will be funded by internal resources and bank loans.

Staff Policy

The Group had 5,895 (2017: 5,988) employees in the PRC, 1,606 (2017: 778) employees in Cambodia and 142 employees (2017: 116) in Hong Kong, Macau, Singapore and others as at 31 December 2018. Remuneration packages are generally structured by reference to market terms and individual qualification. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Discretionary bonuses are offered to the Group's staff depending on their performance and the results of the Group. The Group also participates in various defined contribution plans and insurance schemes in compliance with its statutory obligations under the laws and regulations of various locations worldwide.

The Group operates a defined contribution retirement benefit scheme under the Mandatory Provident Fund Schemes Ordinance as well as medical insurance for all its employees in Hong Kong. The Group also participates in various defined contribution plans and insurance schemes in compliance with its statutory obligations under the laws and regulations of various locations worldwide. Also, the Group is obliged to provide its employees in the PRC with welfare schemes covering various insurance and social benefits. Staff benefits are also provided to the staff working in other countries according to the respective countries' statutory requirements.

The Company maintains a share option scheme, pursuant to which share options may be granted to selected eligible participants, with a view to providing an appropriate incentive package for the growth of the Group.

Major Customers and Suppliers

For the year ended 31 December 2018, sales to the Group's five largest customers accounted for approximately 19.5% (2017: approximately 22.1%) of total sales and sales to the largest customer included therein accounted for approximately 6.3% (2017: approximately 6.0%).

Purchases from the Group's five largest suppliers accounted for approximately 36.7% (2017: approximately 36.0%) of total purchases and purchases from the largest supplier therein accounted for approximately 11.2% (2017: approximately 12.5%).

None of the Directors, their respective close associates (as defined in the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) or shareholders of the Company (which to the knowledge of the Directors) who own more than five percent of the issued capital of the Company, had any interest in the Group's five largest customers and/or suppliers during the Year.

Segment Information

For the year ended 31 December 2018, the U.S. remained as the major end-market. By analysis of location of customers, which are garment factories, by regions, sales to the five largest regions (the PRC (other than Hong Kong and Macau), Korea, Hong Kong, Taiwan and Singapore) accounted for approximately 85.3% (2017: (Singapore, Taiwan, Hong Kong, the PRC (other than Hong Kong and Macau) and Korea) approximately 82.9%) of total sales of the Group and sales to the largest region (the PRC (other than Hong Kong and Macau) (2017: the PRC (other than Hong Kong and Macau)) included therein accounted for approximately 31.6% (2017: approximately 27.8%) of the Group.

As at 31 December 2018, the Group's assets located in the fabric operation and garment operation accounted for approximately 93.1% and approximately 3.4% respectively (2017: approximately 97.5% and approximately 0.8%) of the total assets of the Group. Capital expenditure in the fabric operation and garment operation during the Year accounted for 89.6% and approximately 9.3% (2017: 89.2% and approximately 5.1%) of the total capital expenditure of the Group.

Material Acquisition and Disposal

There was no material acquisition and disposal of subsidiaries and associates by the Group during the Year.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining good corporate governance practices. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders' value. The Company has applied the principles and complied with the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules throughout the Year, except for the deviation from code provision A.6.7. Code provision A.6.7 provides that independent non-executive directors and non-executive directors should attend general meetings. Mr. Ho Gilbert Chi Hang, being an independent non-executive Director, was unable to attend the annual general meeting of the Company held on 11 June 2018 due to his other business engagement.

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

As at 31 December 2018, the Board comprised nine Directors, including five executive Directors, one non-executive Director and three independent non-executive Directors. Biographical details of the Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 23 to 26 of the annual report.

The composition of the Board, by category, is set out below:

Title	Name	Position	Gender	Age	Length of service
Executive Directors:	Mr. Tai Chin Chun	Chairman	Male	57	25 years
	Mr. Tai Chin Wen	Chief Executive Officer	Male	63	25 years
	Ms. Cheung So Wan		Female	55	22 years
	Ms. Wong Siu Yuk		Female	57	22 years
	Mr. Chong Chau Lam		Male	69	14 years
Non-executive Director:	Dr. Wong Wai Kong		Male	53	16 years
Independent Non-executive Directors:	Mr. Ho Gilbert Chi Hang	Chairman of Nomination Committee	Male	42	8 years
	Mr. Ting Kay Loong	Chairman of Remuneration Committee	Male	57	2 years
	Mr. Wu Tak Lung	Chairman of Audit Committee	Male	53	3 years

There is no relationship among members of the Board except for the family relationship among Mr. Tai Chin Chun, Mr. Tai Chin Wen, Ms. Cheung So Wan and Ms. Wong Siu Yuk. Mr. Tai Chin Chun is the younger brother of Mr. Tai Chin Wen and their spouses are Ms. Cheung So Wan and Ms. Wong Siu Yuk, respectively.

The Board has a balance of skills and various expertise to direct and supervise the business affairs of the Group. The Board undertakes to monitor the performance of the Group's business operation and act in the best interests of the Group as a whole. The management of the Company implements the strategic development and deals with certain operational matters of the Group under the delegation and authority of the Board.

During the year ended 31 December 2018, the Board convened four board meetings and one general meeting. The individual attendance of each Director at these meetings is set out below:

Name of Director	Attendance at board meetings (%)	Attendance at annual general meeting (%)
Executive Directors:		
Mr. Tai Chin Chun *(Chairman)*	4/4 (100%)	1/1 (100%)
Mr. Tai Chin Wen	4/4 (100%)	1/1 (100%)
Ms. Cheung So Wan	4/4 (100%)	1/1 (100%)
Ms. Wong Siu Yuk	4/4 (100%)	1/1 (100%)
Mr. Chong Chau Lam	3/4 (75%)	1/1 (100%)
Non-executive Director:		
Dr. Wong Wai Kong	4/4 (100%)	1/1 (100%)
Independent Non-executive Directors:		
Mr. Ho Gilbert Chi Hang	4/4 (100%)	0/1 (0%)
Mr. Ting Kay Loong	4/4 (100%)	1/1 (100%)
Mr. Wu Tak Lung	4/4 (100%)	1/1 (100%)

In order to enhance an active contribution to the Board's affairs by all Directors, the Chairman has arranged to convene a regular full board meeting at quarterly intervals to review the financial and operating performance of the Group. In addition to the board meetings, the Chairman also had one meeting with independent non-executive Directors without the presence of the executive Directors. To ensure that good corporate governance practices and procedures are established, the Chairman has delegated the company secretary to draw up and approve the agenda for each board meeting. Notice of at least 14 days has been given to all Directors for a regular board meeting and the Directors can give ideas for discussion in advance in the agenda, if necessary. Draft and final minutes of all regular board meetings have been sent to the Directors for comment and records respectively within a reasonable time after the board meeting is held.

During the Year, Directors were provided with monthly updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. In addition, all Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company updates Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices. During the Year, all Directors have attended/participated in seminars and/or in-house workshops which covered topics as follows:

Name of Director	Topic covered
Mr. Tai Chin Chun	Regulatory updates
Mr. Tai Chin Wen	Regulatory updates
Ms. Cheung So Wan	Regulatory updates
Ms. Wong Siu Yuk	Regulatory updates
Mr. Chong Chau Lam	Regulatory updates
Dr. Wong Wai Kong	Regulatory updates
Mr. Ho Gilbert Chi Hang	Directors' duties and regulatory updates
Mr. Ting Kay Loong	Directors' duties and regulatory updates
Mr. Wu Tak Lung	Directors' duties and regulatory updates

All Directors are requested to provide the Company with their respective training records pursuant to the Code. The Directors confirmed that they have complied with the code provision A.6.5 of the Code.

The Company has complied with Rules 3.10(1) and (2) and 3.10A of the Listing Rules in that the three independent non-executive Directors represent one-third of the Board and one of them possesses the requisite appropriate professional accounting qualifications.

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The executive Directors, Mr. Tai Chin Chun and Mr. Tai Chin Wen, serve as the Chairman and the Chief Executive Officer of the Company, respectively.

The roles of the Chairman and the Chief Executive Officer are segregated and not performed by the same individual. The Chairman is primarily responsible for the leadership of the Board and the formulation of overall strategic development of the Group, while the Chief Executive Officer is primarily responsible for the day-to-day management of the Group's business.

NON-EXECUTIVE DIRECTOR

The term of non-executive Directors is specified for two years subject to retirement by rotation and re-election at annual general meeting under the Company's articles of association.

COMPANY SECRETARY

The company secretary of the Company is Mr. Lei Heong Man. He has fulfilled the requirement under Rules 3.28 and 3.29 of the Listing Rules. As an employee of the Company, the company secretary ensures good information flow within the Board and compliance with Board policy and procedures; advises the Board on governance matters, facilitates induction and, monitors the training and continuous professional development of Directors. He has attained not less than 15 hours of relevant professional training during the year ended 31 December 2018. His biography is set out in the "Profile of Directors and Senior Management" section of this annual report.

REMUNERATION COMMITTEE

The remuneration committee was established in September 2005. Terms of reference adopted by the remuneration committee are of no less exacting terms than those duties set out in the Code and a copy of which is available on the websites of the Stock Exchange and the Company. The remuneration committee comprises three independent non-executive Directors, namely Mr. Ting Kay Loong (Chairman), Mr. Ho Gilbert Chi Hang and Mr. Wu Tak Lung and two executive Directors, namely Mr. Tai Chin Chun and Mr. Tai Chin Wen. The remuneration committee is primarily responsible for, among other matters, reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management of the Company.

During the year ended 31 December 2018, the remuneration committee convened one meeting and the individual attendance of each committee member is set out below:

Name of Director	Attendance	(%)
Independent Non-executive Directors:		
Mr. Ting Kay Loong *(Chairman)*	1/1	(100%)
Mr. Ho Gilbert Chi Hang	1/1	(100%)
Mr. Wu Tak Lung	1/1	(100%)
Executive Directors:		
Mr. Tai Chin Chun	1/1	(100%)
Mr. Tai Chin Wen	1/1	(100%)

The remuneration committee meeting was held to review and recommend the salary revision for executive Directors. As no Director or any of his/her associate should be involved in deciding his/her own remuneration in compliance with the principle of the Code, the relevant Directors had abstained from voting on their respective resolutions in which they were materially interested. Remuneration payable to senior management (excluding Directors) for the year ended 31 December 2018 within the band of below HK$2,000,000 comprises 4 individuals and within the band of HK$2,500,001 and HK$3,000,000 comprises 1 individual. Details of the remuneration of the Directors for the year ended 31 December 2018 are shown in note 8 to the financial statements.

NOMINATION COMMITTEE

The nomination committee was established in September 2005. Terms of reference adopted by the nomination committee are of no less exacting terms than those duties set out in the Code and a copy of which is available on the websites of the Stock Exchange and the Company. The nomination committee comprises three independent non-executive Directors, namely Mr. Ho Gilbert Chi Hang (Chairman), Mr. Ting Kay Loong and Mr. Wu Tak Lung and two executive Directors, namely Mr. Tai Chin Chun and Mr. Tai Chin Wen. The nomination committee is primarily responsible for, among other matters, reviewing and making recommendations to the Board on the selection of Board members to ensure that the Board has an appropriate balance of independent Directors, with a mix of business experience in relevant disciplines.

During the year ended 31 December 2018, the nomination committee convened one meeting and the individual attendance of each committee member is set out below:

Name of Director	Attendance	(%)
Independent Non-executive Directors:		
Mr. Ho Gilbert Chi Hang *(Chairman)*	1/1	(100%)
Mr. Ting Kay Loong	1/1	(100%)
Mr. Wu Tak Lung	1/1	(100%)
Executive Directors:		
Mr. Tai Chin Chun	1/1	(100%)
Mr. Tai Chin Wen	1/1	(100%)

The nomination committee meeting was held to review the structure, size, diversity and composition of the Board. According to the board diversity policy adopted by the nomination committee, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service etc. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service etc. The final decision will be based on merit and contribution that the selected candidates will bring to the Board. During the year under review, the nomination committee concluded that the current Board comprises a sufficient number of Directors and is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business operations and development of the Group.

RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of consolidated financial statements for each financial period to ensure such consolidated financial statements give a true and fair view of the consolidated financial position of the Group and of the consolidated financial performance and consolidated cash flows for that period. The Group's consolidated financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgment and estimates made are reasonable.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

AUDITOR'S REMUNERATION

For the year ended 31 December 2018, Ernst & Young, as the external auditor of the Company, has provided audit and non-audit services to the Group at the fees of approximately HK$3.9 million and HK$0.2 million, respectively. The responsibilities of the external auditor of the Company are set out in the "Independent Auditor's Report" on pages 35 to 39 of this report.

AUDIT COMMITTEE

The audit committee was established in August 2004. Terms of reference adopted by the audit committee are of no less exacting terms than those duties set out in the Code and a copy of which is available on the websites of the Stock Exchange and the Company. The audit committee of the Company comprises all three independent non-executive Directors, namely, Mr. Wu Tak Lung (as Chairman), Mr. Ho Gilbert Chi Hang and Mr. Ting Kay Loong. The main responsibilities of the audit committee include the following:

– assists the Board in discharging its statutory responsibilities on financial and accounting matters;

– reviews and monitors the effectiveness of the audit process in accordance with applicable standard;

– develops and implements policy on the engagement of external auditor;

– reviews the Company's financial controls, internal control and risk management systems; and

– develops and reviews the Company's policies and practices on corporate governance and make recommendations to the Board.

During the year ended 31 December 2018, the audit committee convened three meetings and the individual attendance of each committee member is set out below:

Name of Director	Attendance	(%)
Independent Non-executive Directors:		
Mr. Wu Tak Lung *(Chairman)*	3/3	(100%)
Mr. Ting Kay Loong	3/3	(100%)
Mr. Ho Gilbert Chi Hang	3/3	(100%)

The audit committee meetings were held to discuss with the management for the accounting policies, internal control and risk management systems adopted by the Group, as well as to review the interim and annual financial statements of the Group before recommending them to the Board for adoption and approval. In addition, the audit committee had meeting with the external auditor twice. It has also reviewed the Company's compliance with the Code.

The audit committee also made recommendation to the Board on the re-appointment of the external auditor. The Board has not taken a different view from that of the audit committee regarding the selection, appointment, resignation or dismissal of the external auditor.

INTERNAL CONTROL

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets, overseeing and reviewing the effectiveness of the same on an ongoing basis.

The Group has an independent internal audit department which is primarily responsible for carrying out review of the internal control system and risk management process. This is part of the on-going process to ensure that the effectiveness of material controls is monitored.

During the year of 2018, the Board has conducted a review of the effectiveness of the internal control system of the Group covering all material controls, including financial, operational and compliance controls as well as risk management functions as required by the Code. The audit committee has also reviewed the internal control system of the Group and the findings of major investigations of internal control matters. The Group implements budget management with an aim to have better monitor on both business and financial performance. There was no significant incidence of failure in connection with financial, operational and compliance control during the Year under review. The Board considered that the internal control system is effective and adequate and that there are adequate staff with appropriate qualifications and experience, resources and budget of its accounting and financial reporting function, and adequate training programmes have been provided.

The Company has implemented a system of internal controls to provide reasonable assurance that assets are safeguarded, proper accounting records are maintained, appropriate legislation and regulations are complied with, reliable financial information are provided for management and publication purposes, investment and business risks are identified and managed, the Board will continue to review procedures implemented for assessing the effectiveness of the internal control system.

With respect to the internal control for the handling and dissemination of inside information, the Board is fully aware of its obligations under Part XIVA of the Securities and Futures Ordinance and the Listing Rules. The Group has adopted a policy on disclosure of inside information with the aim to ensure that the insiders abide by the confidentiality requirement and are in compliance with the Securities and Futures Ordinance and the Listing Rules in the handling and dissemination of inside information.

RISK MANAGEMENT

The Board is responsible for the establishment, maintenance of an adequate and effective risk management system of the Group and for overseeing and reviewing its design, operation and effectiveness on an ongoing basis. The risk management system, together with the internal control, ensure the risk associated with the different business units and operations of the Group are effectively monitored and controlled. Such system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

Various policies and procedures have been implemented, to ensure effective risk management of each aspect of the Group's operation, including site inspection, administration, daily operation, financial reporting and recording, fund management, compliance with applicable laws and regulations on relevant areas such as environmental protection and workplace safety.

The review of the risk management system by the Board consists of the following aspects: (i) review of reports by operations or departments and the management regarding the implementation of the risk management system, identifying and assessing principal risks within its operations or departments and establishing mitigation plans to manage the risks identified; (ii) discussions with the management regarding the effectiveness of the risk management system, ensuring principal risks are properly managed, and new or changing risks are identified, documented and reported to the Board; and (iii) evaluation on the scope and quality of the monitoring procedures of the risk management system.

During the year ended 31 December 2018, the Board has reviewed the risk management system and was not aware of any significant risk management issues that would have an adverse impact on the financial position or operations of the Group, and through the review of the independent internal audit department, considered the risk management system of the Group is effective and adequate.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company establishes different communication channels with shareholders and investors, including (i) dispatching printed copies of corporate communication documents to shareholders; (ii) using the annual general meeting as a forum for shareholders to raise comments and exchange views with the Board; (iii) setting up regular press conferences and meetings with investors and analysts from time to time to introduce and release information of the Group, (iv) engaging the Company's share registrars to serve the shareholders on all share registration matters, and (v) maintaining a corporate website at www.kamhingintl.com, at which, comprehensive information, updates on the Company's business development and operations are provided.

SHAREHOLDERS' RIGHTS

In accordance with the Article 58 of the articles of association of the Company, one or more shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to the requisitionists by the Company.

Shareholders may by ordinary resolution elect any person to be a Director of the Company. If a shareholder wishes to nominate a person to be elected as a Director, the following documents must be validly served to the Company at the Company's principal place of business in Hong Kong at 23A, TML Tower, No. 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong: (i) his/her notice of intention to propose a resolution at the general meeting; and (ii) a notice executed by the nominated candidate of his/her willingness to be appointed together with his/her information as required to be disclosed under Rule 13.51(2) of the Listing Rules, within the period commencing on the day after the dispatch of the notice of the general meeting appointed for such election and ending on the date falling seven days after the dispatch of the said notice of the general meeting.

A shareholders' communication policy (the "Policy") was adopted by the Company to maintain an on-going dialogue with shareholders and encourage them to communicate actively with the Company and the Board will review the Policy on a regular basis to ensure its effectiveness.

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong branch share registrar: Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Other enquiries or comments raised by any shareholder can be mailed to the Board at the Company's principal place of business in Hong Kong at 23A, TML Tower, No. 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong, through the Company's official website (www.kamhingintl.com), or sent through fax number at (852) 2408 1891, or by using the Company's telephone hotline at (852) 2406 0080.

During the year ended 31 December 2018, there was no change to the constitutional documents of the Company. A consolidated version of the memorandum and articles of association of the Company is available on the websites of the Company and the Stock Exchange.

BOARD OF DIRECTORS

Executive Directors

Mr. Tai Chin Chun (戴錦春), aged 57, is the Chairman of the Board, an executive Director, a director of most subsidiaries of the Company and co-founder of the Group. He is also a member of the remuneration committee and nomination committee of the Company. Mr. Tai is in charge of the Group's corporate strategy, planning and overall development. He has more than 30 years of experience in the textile industry, in which he served more than 20 years for the Group. Mr. Tai conferred an Honorary Consulate of The Republic of Mauritius in Hong Kong Special Administration Region ("HKSAR") in January 2010. Mr. Tai obtained the "World Outstanding Chinese Award 2008" from United World Chinese Association and conferred an Honorary Doctor Degree by The University of West Alabama (Regional University), USA. Mr. Tai is an executive director of Guangdong Chamber of Foreign Investors (廣東外商公會常務理事), a member of Guangdong Provisional Committee of CPPCC and standing member of Nansha Municipal Committee of CPPCC (中國人民政治協商會議廣東省委員會委員、廣州市南沙區委員會常務委員). He has also been awarded honorary citizenship of Guangzhou Municipal (廣州市榮譽市民), honorary life president of the Nam An (Hong Kong) Association and Fujian Tai's Clan Hong Kong Association (香港南安公會永遠名譽會長、福建旅港戴氏宗親會永遠榮譽會長). Mr. Tai is the younger brother of Mr. Tai Chin Wen and the spouse of Ms. Cheung So Wan.

Mr. Tai Chin Wen (戴錦文), aged 63, is an executive Director, the Chief Executive Officer, a director of most subsidiaries of the Company and co-founder of the Group. He is also a member of the remuneration committee and nomination committee of the Company. Mr. Tai is in charge of the Group's day-to-day management. He has over 30 years of management experience in the manufacturing industry, in which he served more than 20 years for the Group. Mr. Tai is a standing member of Hubei Committee of CPPCC (中國人民政治協商會議湖北省委員會常務委員). He is a vice chairman of Hubei Chinese Overseas Friendship Association (湖北省海外聯誼會副會長), executive chairman of Guangdong Jiangmen City Association of Foreign Investment (廣東省江門市外商投資協會執行會長), chairman of World of Dai Clan Governing Council (世界戴氏宗親總會理事長) and president of Fujian Tai's Clan Hong Kong Association (福建旅港戴氏宗親會會長). He has also been awarded honorary citizenship of Guangzhou Municipal and Jiangmen (廣州市榮譽市民及江門市榮譽市民), honorary life chairman of Hong Kong Federation of Fujian Association (香港福建社團聯會永遠榮譽主席), managing vice president of Hong Kong Hubei Fraternity (香港湖北聯誼會常務副會長) and honorary life president of the Nam An (Hong Kong) Association (香港南安公會永遠名譽會長). Mr. Tai is the elder brother of Mr. Tai Chin Chun and the spouse of Ms. Wong Siu Yuk.

Ms. Cheung So Wan (張素雲), aged 55, is an executive Director. She is also a director of some subsidiaries of the Group. She is responsible for sales and marketing, yarn sourcing, quality control and stock control in the Group, and assists in the overall management of the Group. Ms. Cheung joined the Group in November 1996 and has more than 20 years of experience in the textile industry. Ms. Cheung is the spouse of Mr. Tai Chin Chun.

Ms. Wong Siu Yuk (黃少玉), aged 57, is an executive Director. She is also a director of some subsidiaries of the Group. She is responsible for dyeing material sourcing, quality control and stock control in the Group, and assists in the overall management of the Group. Ms. Wong joined the Group in December 1996 and has more than 20 years of experience in the textile industry. Ms. Wong is the spouse of Mr. Tai Chin Wen.

Mr. Chong Chau Lam (莊秋霖), aged 69, is an executive Director. He is responsible for overall management of the textile business of the Group. Mr. Chong obtained a High Diploma in Dyeing, Printing and Finishing Technology from the Hong Kong Technical College and a Master Degree of Business Administration from the University of East Asia in Macau. He is an associate member of both the Society of Dyers and Colourists and the Textile Institute in the United Kingdom, and was awarded the Silver Medal and a bar to Silver Medal by the Society of Dyers and Colourists in 1982 and 2013 respectively. Prior to joining the Group on 30 March 2004, he worked as a senior lecturer at the Institute of Textiles and Clothing of the Hong Kong Polytechnic University and an engineer in a local textile company. Mr. Chong is also a member of the Dyeing and Finishing Special Committee and become Vice Director since 2013, a member of the China Textile Engineering Society, and an active technical consultant in the dyeing and finishing sector.

NON-EXECUTIVE DIRECTOR

Dr. Wong Wai Kong, **(黃偉桄)**, aged 53, is a non-executive Director. Dr. Wong obtained a Bachelor Degree of Business Administration from the Hong Kong Baptist University in Hong Kong in November 1990, a Master Degree of Business Administration from the University of Sheffield in the United Kingdom in May 1995, a Master Degree of Science in Business Information Technology from the Middlesex University in the United Kingdom in January 2003 and a Doctor of Philosophy in Business Administration from the Bulacan State University in the Republic of the Philippines in July 2015. Dr. Wong has over 20 years of experience in corporate finance, financial advisory and management, professional accounting and auditing. Dr. Wong is a Certified Public Accountant (practicing) in Hong Kong and a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants.

Dr. Wong was appointed as an executive Director on 10 January 2008 and subsequently re-designated as a non-executive Director on 1 January 2018. He had been an independent non-executive director of Koradior Holdings Limited (stock code: 3709) from 6 June 2014 to 17 July 2017, and an independent non-executive director of Million Stars Holdings Limited (formerly known as Odella Leather Holdings Limited) (stock code: 8093) during 28 January 2015 to 17 March 2017, both of them are listed companies in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Gilbert Chi Hang (何智恒), aged 42, is a member and the chairman of the nomination committee, and a member of the remuneration committee and audit committee of the Company. Mr. Ho holds a Bachelor of Commerce Degree and a Bachelor of Laws Degree from the University of Sydney, Australia and is a solicitor admitted in New South Wales, Australia and England and Wales and a solicitor and barrister admitted in the High Court of Australia. He is a partner of an international law firm Fried, Frank, Harris, Shriver and Jacobson LLP.

Mr. Ho is a Committee Member of the Chinese People's Political Consultative Conference of Shenyang, Liaoning Province (中國人民政治協商會議遼寧省瀋陽市委員會), a Standing Committee Member of the Youth Federation of Inner Mongolia (內蒙古自治區青年聯合會) and the Vice Chairman of Inner Mongolia & Hong Kong Youth Exchange Association (蒙港青年交流促進會).

Mr. Ho is appointed as the executive director of NWS Holdings Limited (stock code: 0659) on 9 July 2018, a company listed on the Stock Exchange, and currently served as an independent non-executive director of Hailiang International Holdings Limited (stock code: 2336) since 12 May 2014, Asia Allied Infrastructure Holdings Limited (stock code: 0711) since 20 January 2017 and Wai Kee Holdings Limited (stock code: 0610) since 31 December 2018, and a non-executive director of Shougang Concord International Enterprise Company Limited (stock code: 0697) since 21 May 2018, all of the above-mentioned companies are listed companies in Hong Kong. During the past three years, he was an executive director of HMV Digital China Group Limited (stock code: 8078) and an executive director and chief executive officer of AID Life Science Holdings Limited (former known as AID Partners Technology Holdings Limited) (stock code: 8088), both are listed on GEM of the Stock Exchange. Mr. Ho joined the Group on 4 May 2010.

Mr. Ting Kay Loong (丁基龍), aged 57, is a member and chairman of the remuneration committee, and a member of the audit committee and nomination committee of the Company. He holds a Bachelor of Economics Degree from Macquarie University, Australia and is a fellow member of the Australian Society of Certified Public Accountants. Mr. Ting has over 25 years of experience in financial services industry. He is presently the head of corporate finance of Shenwan Hongyuan Capital (H.K.) Limited (formerly known as Shenyin Wanguo Capital (H.K.) Limited). Prior to joining Shenwan Hongyuan in 2006, he had worked for Haitong International Capital Limited (formerly known as Tai Fook Capital Limited) and several listed companies in Hong Kong. Mr. Ting joined the Group on 14 July 2017.

Mr. Wu Tak Lung (吳德龍), aged 53, is a member and chairman of the audit committee, and a member of nomination committee and remuneration committee of the Company. He holds a bachelor's degree of business administration in accounting from the Hong Kong Baptist University and a master's degree of business administration jointly issued by the University of Manchester and the University of Wales. He is a member of Hong Kong Institute of Certified Public Accountants, a fellow member of Hong Kong Securities and Investment Institute, the Association of Chartered Certified Accountants, the Taxation Institute of Hong Kong, and the Hong Kong Institute of Chartered Secretaries. He had worked in Deloitte Touche Tohmatsu, an international accounting firm, for five years and was then employed by several companies in Hong Kong as head of corporate finance and/or executive director.

Mr. Wu is appointed as Member of the Jiangsu Provisional Committee of the Chinese People's Political Consultative Committee, Honorary Court Member of Hong Kong Baptist University, Honorary President of North Kwai Chung District Scout Council of Scout Association of Hong Kong and Vice-chairman of Hong Kong-GuangDong Youth Exchange Promotion Association.

Mr. Wu currently served as an independent non-executive director of Henan Jinma Energy Company Limited (stock code: 6885), Beijing Media Corporation Limited (stock code: 1000), Sinomax Group Limited (stock code: 1418) and China Machinery Engineering Corporation (stock code: 1829), all are listed companies in Hong Kong, Olympic Circuit Technology Company Limited, a company listed in Shanghai. Mr. Wu has resigned as the independent non-executive director of First Tractor Company Limited (Stock code: 0038) since 29 October 2018, a company listed in both Hong Kong and Shanghai. Mr Wu has also resigned as the independent non-executive director of Sinotrans Shipping Limited (stock code: 0368) since 16 January 2019, a company was listed in Hong Kong and was delisted on 16 January 2019. During the past three years, Mr. Wu served as an independent non-executive director of Huarong Investment Stock Corporation Limited and Aupu Group Holding Limited, which were listed companies in Hong Kong. Mr. Wu joined the Group on 1 December 2016.

SENIOR MANAGEMENT

Mr. Lei Heong Man (李向民), aged 58, is the chief financial officer and company secretary of the Group and is responsible for the supervision and management of the Group's financial matters. Mr. Lei has over 20 years of experience in regional financial and operational management in multinational corporations and listed companies, and he is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Lei holds a Bachelor Degree in Accountancy, Finance and Economics from the University of Essex, and a Master of Business Administration Degree from The University of Wales, the United Kingdom. Mr. Lei joined the Group in June 2009.

Mr. Chan Kin Wang (陳建宏), aged 55, is the general manager of the operations centre in Enping. Mr. Chan has over 30 years of experience in the textile industry. Mr. Chan joined the Group in December 2008.

Mr. Tai Tang Tat (戴騰達), aged 38, is the general manager of operations centre in Guangzhou, deputy general manager of information and technology centre and marketing and sales department and a director of some subsidiaries of the Group. Mr. Tai obtained a Diploma in Computer Science from the Sydney Institute of Business and Technology, Australia. Mr. Tai is the son of Mr. Tai Chin Wen. Mr. Tai joined the Group in March 2002.

Mr. Wong Yi Ming (黃一鳴), aged 54, is the deputy managing director of Guangzhou Kamhing Textile Dyeing Co., Ltd. (the "Guangzhou KH"), a wholly-owned subsidiary of the Group, and is responsible for the overall management and administration of Guangzhou KH. Mr. Wong obtained a Master Degree of Business Administration from the Zhongshan University. He has over 25 years of management experience in the textile industry. Prior to joining the Group in September 1997, Mr. Wong has worked for PRC companies for over 16 years, where he was responsible for financial and business management. Mr. Wong is the younger brother of Ms. Wong Siu Yuk.

Mr. Ho Yi Piu (何宜標), aged 50, is the director of Kam Hing Piece Works (S) Pte Limited, a wholly-owned subsidiary of the Group. Mr. Ho is the deputy general manager of the Group's sales and marketing department. Mr. Ho obtained a Diploma in Business Administration from the Society of Business Practitioners, Cheshire, the United Kingdom. Prior to joining the Group in June 1999, Mr. Ho has worked for fabric trading companies and he has over 15 years of experience in the textile industry. Mr. Ho is the son-in-law of the brother of Mr. Tai Chin Chun and Mr. Tai Chin Wen.

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 40 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the Year.

A review of the business of the Group during the Year and a discussion on the Group's future business development are provided in the Chairman's Statement on pages 5 to 7 and the Management Discussion and Analysis on pages 8 to 14 of this report. Description of possible risks and uncertainties that the Group may be facing can be found in the Management Discussion and Analysis on pages 8 to 14. Also, the financial risk management objectives and policies of the Group are provided in the Management Discussion and Analysis on pages 8 to 14 and also in note 38 to the financial statements. An analysis of the Group's performance during the Year using financial key performance indicators is provided in the Financial Highlights and Summary and Five-year Financial Summary on pages 3 to 4 and 120 respectively of this report. These discussions form part of this Directors' report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group recognises the importance of environmental protection and has adopted stringent measures for environmental protection in order to ensure our compliance to the prevailing environmental protection laws and regulations.

During the year ended 31 December 2018 and up to the date of this report, the Group does not have any violation of relevant environmental regulations and rules which have a significant impact to the Group's development, performance and businesses.

The environmental, social and governance report will be published in a separate report to be uploaded on the websites of the Company and the Stock Exchange.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Year under review and as at the date of this annual report, the management is of the view that the Company was not aware of any material breach of or non-compliance with any relevant laws and regulations that had a significant impact on the business and operations of our Group.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

In order to sustain a stable development of the Group, we understand that a good and close relationship with employees, customers and suppliers is one of the key factor to achieve it.

The Group provides a competitive remuneration package and career development opportunities to our employees. We also maintain a safe and healthy working environment.

The Group provides quality products and handle customer needs carefully. In order to reach customer expectations, we ensure there is adequate communication and offer customers with different solutions. We are committed to use our best effort to maintain a long term relationships with customers.

The Group has developed a good and long relationship with our suppliers to maintain a steady supplies with good qualities. We proactively communicate with our suppliers and perform regular quality control to ensure the quality supplied.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2018 and the financial position of the Group at that date are set out in the financial statements on pages 40 to 119.

The Directors recommend the payment of a final dividend of HK1.5 cents (2017: HK1.5 cents) per ordinary share in respect of the Year, to be payable to the shareholders whose names appear on the register of members of the Company on Monday, 10 June 2019. Subject to the approval of shareholders at the forthcoming annual general meeting, the proposed final dividend will be paid on or about Wednesday, 3 July 2019.

SUMMARY FINANCIAL INFORMATION

A summary of the results and assets, liabilities and non-controlling interests of the Group for the last five financial years, is set out on page 120. This summary does not form part of the audited financial statements.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in the Company's share capital and share options during the Year.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Year.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounting to HK$916,200,000, of which approximately HK$13,049,000 have been proposed as final dividend for the year after the reporting period. The amount of HK$916,200,000 includes the Company's share premium account and capital reserve of HK$848,112,000 in aggregate as at 31 December 2018, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay off its debts as and when they fall due in the ordinary course of business.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$1,811,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 19.5% (2017: 22.1%) of the total sales and sales to the largest customer included therein accounted for 6.3% (2017: 6.0%). Purchases from the Group's five largest suppliers accounted for 36.5% (2017: 36.0%) of the total purchases for the Year and purchases from the largest supplier included therein accounted for 11.2% (2017: 12.5%).

None of the Directors, their respective close associates (as defined in the Listing Rules) or shareholders of the Company (which to the knowledge of the Directors) who own more than five percent of the issued capital of the Company, had any interest in the Group's five largest customers and/or suppliers during the Year.

DIRECTORS

The Directors of the Company during the Year and as at the date of this report were:

Executive Directors:

Mr. Tai Chin Chun *(Chairman)*
Mr. Tai Chin Wen *(Chief Executive Officer)*
Ms. Cheung So Wan
Ms. Wong Siu Yuk
Mr. Chong Chau Lam

Non-executive Director:

Dr. Wong Wai Kong

Independent non-executive Directors:

Mr. Ho Gilbert Chi Hang
Mr. Ting Kay Loong
Mr. Wu Tak Lung

In accordance with article 87(1) of the Company's articles of association, Ms. Wong Siu Yuk, Dr. Wong Wai Kong and Mr. Wu Tak Lung will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company. The independent non-executive Directors are appointed for a term of two years.

The Company has received annual confirmations of independence from Mr. Ho Gilbert Chi Hang, Mr. Ting Kay Loong and Mr. Wu Tak Lung, and considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 23 to 26 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors, non-executive Director and the independent non-executive Directors has a service contract with the Company for a term of three years, two years and two years, respectively and is subject to termination by either party by giving not less than three months' and one month's written notice, respectively.

Under the service contracts, after each complete year of service, each of the executive Directors may, subject to the discretion of the Board, be entitled to discretionary bonuses, with reference to their duties and responsibilities with the Company, their performance against corporate goals and objectives, the remuneration standard in the market and salaries paid by the comparable companies.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

The Directors' remuneration is subject to shareholders' approval at general meetings with reference to the recommendation of the Company's remuneration committee. The Group's emolument policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to the Group's profitability, the Group may also provide a discretionary bonus to its employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the Group's executive Directors is to enable the Group to retain and motivate executive Directors by linking their compensation with performance as measured against corporate objectives achieved.

The principal elements of the Group's remuneration packages include basic salaries, discretionary bonuses, housing benefits and share option benefits.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the related party transactions disclosures in note 34 to the financial statements, no Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of its subsidiaries was a party subsisting during or at the end of the Year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the interests and short positions of the Directors or the chief executive of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares and underlying shares of the Company:

Name of Director	Notes	Capacity and nature of interest: Beneficial owner (shares)	Interest of spouse (shares)	Interest in controlled corporation (shares)	Total interests (shares)	Approximate percentage of the Company's issued share capital (%)
Mr. Tai Chin Chun	1	3,000,000	1,000,000	332,600,000	336,600,000	38.69
Mr. Tai Chin Wen	2	2,000,000	1,000,000	96,000,000	99,000,000	11.38
Ms. Cheung So Wan	3	1,000,000	335,600,000	–	336,600,000	38.69
Ms. Wong Siu Yuk	4	1,000,000	98,000,000	–	99,000,000	11.38
Mr. Chong Chau Lam		300,000	–	–	300,000	0.03

Notes:

1. 332,600,000 shares are held by Exceed Standard Limited ("Exceed Standard"), a company incorporated in the British Virgin Islands (the "BVI") and beneficially owned by Mr. Tai Chin Chun, the chairman and an executive Director of the Company. As Ms. Cheung So Wan is his spouse, Mr. Tai Chin Chun is deemed to be interested in the 1,000,000 shares held by Ms. Cheung So Wan under the SFO.

2. 96,000,000 shares are held by Power Strategy Limited ("Power Strategy"), a company incorporated in the BVI and beneficially owned by Mr. Tai Chin Wen. As Ms. Wong Siu Yuk is his spouse, Mr. Tai Chin Wen is deemed to be interested in the 1,000,000 shares held by Ms. Wong Siu Yuk under the SFO.

3. Ms. Cheung So Wan is deemed to be interested in the shares held by her spouse, Mr. Tai Chin Chun, under the SFO.

4. Ms. Wong Siu Yuk is deemed to be interested in the shares held by her spouse, Mr. Tai Chin Wen, under the SFO.

Save as disclosed above, as at 31 December 2018, none of the Directors nor the chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

PERMITTED INDEMNITY PROVISION

Pursuant to the articles of association of the Company, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgement is given in his favor, or in which he is acquitted.

The Company has maintained Directors' liability insurance during the year ended 31 December 2018 and up to the date of this annual report which provides appropriate cover for the Directors.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' interests and short positions in shares and underlying shares" above and in the section "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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.

SHARE OPTION SCHEME

During the Year, no share options had been granted under the share option scheme and there was no outstanding share option as at 31 December 2018.

CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

(a) For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Wednesday, 29 May 2019 to Monday, 3 June 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 28 May 2019.

(b) For determining the entitlement to the proposed final dividend for the Year (subject to approval by the shareholders at the annual general meeting), the register of members of the Company will be closed on Monday, 10 June 2019, on which no transfer of shares of the Company will be registered. In order to be eligible for the proposed final dividend, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 6 June 2019.

RELATED PARTY TRANSACTIONS

Related party transactions entered into by the Group during the year are set out in note 34 to the financial statements. These related party transactions are connected transactions but are fully exempted from disclosure under the Listing Rules.

PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

So far as is known to the Directors and the chief executive of the Company, as at 31 December 2018, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions:

Name	Capacity and nature of interest (Note)	Number of ordinary shares held	Percentage of the Company's issued share capital
Exceed Standard	Beneficial owner	332,600,000	38.23
Power Strategy	Beneficial owner	96,000,000	11.04

Note: The relationship between Exceed Standard and Mr. Tai Chin Chun, as well as that between Power Strategy and Mr. Tai Chin Wen are disclosed in the notes under the section headed "Directors' interests and short positions in shares and underlying shares" above.

Save as disclosed above, as at 31 December 2018, no person, other than the Directors or the chief executive of the Company whose interests are set out under the sections headed "Directors' interests and short positions in shares and underlying shares" and "Share option scheme" above, had an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register pursuant to section 336 of the SFO.

DISCLOSURES PURSUANT TO RULE 13.21 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE (THE "LISTING RULES")

In accordance with the requirements of Rule 13.21 of the Listing Rules, disclosure is required in respect of the loan agreements of the Company and of a subsidiary of the Company, which contain covenants requiring performance obligations of the controlling shareholders of the Company.

Pursuant to the facility agreement dated 25 August 2017 and entered into among the Company and two other subsidiaries of the Company as guarantors, a wholly-owned subsidiary of the Company as the borrower and a syndicate of banks as lenders, a term loan facility in an aggregate sum of HK$1,000.0 million for a term of three and a half years is made available to the subsidiary of the Company repayable in four equal instalments on the dates falling 24, 30, 36 and 42 months after the date of the facility agreement. An event of default would arise if any one of below events happen: (i) either Mr. Tai Chin Chun or Mr. Tai Chin Wen is not the chairman of the Company or (ii) Mr. Tai Chin Chun and Mr. Tai Chin Wen taken together, do not or cease to have management control of the Group or (iii) Mr. Tai Chin Chun, Mr. Tai Chin Wen, Ms. Cheung So Wan and Ms. Wong Siu Yuk collectively, (a) do not or cease to own, directly or indirectly, at least 40% of the beneficial interest in the Company, carrying at least 40% of the voting right, free from any security interest; or (b) are not or cease to be the single largest shareholder of the Company; or (c) do not or cease to appoint or nominate the majority of the Board, the commitments under the loan facility may be cancelled and all amounts outstanding under the loan facility may become immediately due and payable.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

AUDITOR

The Company's auditor, Ernst & Young shall retire in the forthcoming annual general meeting of the Company. A resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

Tai Chin Chun
Chairman

Hong Kong
28 March 2019

EY 安永

To the shareholders of Kam Hing International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Kam Hing International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 40 to 119, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

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

To the shareholders of Kam Hing International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of accounts receivable	
Accounts receivables accounted for 39% and 15% of the net assets value and total assets of the Group, respectively, which are significant to the consolidated statement of financial position of the Group as at 31 December 2018. The Group recognised an allowance for expected credit losses ("ECL") for accounts receivables balances and established a provision matrix for the purpose of impairment assessment. Significant judgement is involved in the estimation and assessment of the correlation among historical observed default rate, forecast economic conditions and ECLs. Details of accounts receivables are disclosed in notes 2.4, 3 and 20 to the financial statements.	We reviewed management's impairment assessment on the accounts receivables balance by checking the settlement received from customers subsequent to the end of the reporting period and reviewing the underlying assumptions adopted by management in the provision matrix, with reference to various factors such as the ageing of accounts receivables balances, the credit terms granted by the Group to respective customers, the historical repayments patterns from customers and forward-looking factors.
Impairment assessment of inventories	
Inventories accounted for 58% and 23% of the net asset value and total assets of the Group, respectively, which is significant to the consolidated statement of financial position of the Group as at 31 December 2018. Management's judgement is involved in the estimation of valuation of the inventories at the lower of cost and net realisable value, with reference to the selling price of inventories subsequent to the end of the reporting period and market information. Moreover, management's judgement is required in the estimation of obsolescence of inventories with reference to ageing and conditions of inventories, and the quantity of inventories sold subsequent to the end of the reporting period. Details of inventories are disclosed in notes 2.4, 3 and 19 to the financial statements.	In assessing the impairment of inventories, we reviewed net realisable value of selected samples with reference to their selling price subsequent to the end of the reporting period or purchase orders placed by customers of the Group. Moreover, we considered the obsolescence of inventories with reference to their ageing and discussed with management for any impairment indication. We attended the physical inventory count and noted for any obsolescence items and observed the stock take procedures performed by management. We checked calculation accuracy of the inventory ageing against samples of goods receipt notes, inspected the sales invoices and purchase orders from customers for selling price subsequent to the end of the reporting period, and performed inventory ageing analysis.

To the shareholders of Kam Hing International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, 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.

To the shareholders of Kam Hing International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

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

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

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

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

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

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

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

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

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

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

To the shareholders of Kam Hing International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

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

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 Law Fu Yuen, Patrick.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	5	**4,650,958**	4,192,896
Cost of sales		**(4,070,280)**	(3,675,927)
Gross profit		**580,678**	516,969
Other income and gains, net	5	**37,925**	49,884
Selling and distribution expenses		**(122,831)**	(112,601)
Administrative expenses		**(314,010)**	(304,996)
Write-back of impairment losses on financial assets, net		**7,171**	9,109
Other operating expenses, net		**(30,162)**	(12,543)
Finance costs	6	**(71,673)**	(59,661)
PROFIT BEFORE TAX	7	**87,098**	86,161
Income tax expense	10	**(16,804)**	(23,247)
PROFIT FOR THE YEAR		**70,294**	62,914
Attributable to:			
Ordinary equity holders of the Company		**72,826**	64,575
Non-controlling interests		**(2,532)**	(1,661)
		70,294	62,914
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic		**HK8.4 cents**	HK7.4 cents
Diluted		**HK8.4 cents**	HK7.4 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
PROFIT FOR THE YEAR		**70,294**	62,914
OTHER COMPREHENSIVE INCOME/(EXPENSES)			
Other comprehensive income/(expenses) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences:			
Exchange differences on translation of foreign operations		**(170,635)**	182,370
Realisation of exchange reserve upon deregistration of subsidiaries	40(i)	**356**	(1,740)
OTHER COMPREHENSIVE INCOME/(EXPENSES) FOR THE YEAR		**(170,279)**	180,630
TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE YEAR		**(99,985)**	243,544
Attributable to:			
Ordinary equity holders of the Company		**(95,626)**	243,186
Non-controlling interests		**(4,359)**	358
		(99,985)	243,544

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,896,746**	2,050,261
Prepaid land lease payments	14	**118,135**	131,232
Goodwill	15	**–**	3,072
Interest in an associate	16	**–**	–
Prepayments		**6,163**	6,896
Long term receivables		**32,444**	31,633
Deposits paid	17	**32,454**	24,795
Deferred tax assets	27	**29,236**	4,409
Total non-current assets		**2,115,178**	2,252,298
CURRENT ASSETS			
Properties under development	18	**42,846**	–
Inventories	19	**1,127,358**	1,164,546
Accounts and bills receivables	20	**990,548**	846,745
Prepayments, deposits and other receivables		**67,549**	40,840
Financial assets at fair value through profit or loss	21	**160**	314
Tax recoverable		**7,742**	–
Pledged deposits	22	**58,967**	9,875
Cash and cash equivalents	22	**558,249**	421,723
Total current assets		**2,853,419**	2,484,043
CURRENT LIABILITIES			
Accounts and bills payables	23	**781,794**	660,460
Accrued liabilities and other payables	24	**228,155**	195,825
Due to an associate	16	**1,926**	2,706
Tax payable		**8,062**	23,181
Interest-bearing bank borrowings	25	**1,176,001**	706,820
Total current liabilities		**2,195,938**	1,588,992
NET CURRENT ASSETS		**657,481**	895,051
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,772,659**	3,147,349

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	25	**827,593**	1,087,994
Deferred tax liabilities	27	**6,210**	7,465
Total non-current liabilities		**833,803**	1,095,459
Net assets		**1,938,856**	2,051,890
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	28	**86,992**	86,992
Reserves	30	**1,854,491**	1,963,166
		1,941,483	2,050,158
Non-controlling interests		**(2,627)**	1,732
Total equity		**1,938,856**	2,051,890

Tai Chin Chun
Director

Tai Chin Wen
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Notes	Attributable to ordinary equity holders of the Company									
		Issued capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000	Statutory surplus reserve HK$'000	Other reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018		86,992	446,105	104,804	53,378	(12,126)	194,124	1,176,881	2,050,158	1,732	2,051,890
Profit/(loss) for the year		-	-	-	-	-	-	72,826	72,826	(2,532)	70,294
Other comprehensive income/(expenses) for the year:											
Exchange differences on translation of foreign operations		-	-	-	-	-	(168,808)	-	(168,808)	(1,827)	(170,635)
Realisation of exchange reserve upon deregistration of subsidiaries	40(i)	-	-	-	-	-	356	-	356	-	356
Total comprehensive income/(expenses) for the year		-	-	-	-	-	(168,452)	72,826	(95,626)	(4,359)	(99,985)
Final 2017 dividend declared and paid		-	-	-	-	-	-	(13,049)	(13,049)	-	(13,049)
Transfer to statutory surplus reserve		-	-	-	6,859	-	-	(6,859)	-	-	-
At 31 December 2018		86,992	446,105*	104,804*	60,237*	(12,126)*	25,672*	1,229,799*	1,941,483	(2,627)	1,938,856

* These reserve accounts comprise the consolidated reserves of HK$1,854,491,000 (2017: HK$1,963,166,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Notes	Attributable to ordinary equity holders of the Company									
		Issued capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000	Statutory surplus reserve HK$'000	Other reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017		86,992	446,105	104,804	50,104	(12,093)	15,513	1,128,629	1,820,054	(984)	1,819,070
Profit/(loss) for the year		–	–	–	–	–	–	64,575	64,575	(1,661)	62,914
Other comprehensive income/(expenses) for the year:											
Exchange differences on translation of foreign operations		–	–	–	–	–	180,351	–	180,351	2,019	182,370
Realisation of exchange reserve upon deregistration of subsidiaries	40(i)	–	–	–	–	–	(1,740)	–	(1,740)	–	(1,740)
Total comprehensive income for the year		–	–	–	–	–	178,611	64,575	243,186	358	243,544
Final 2016 dividend declared and paid		–	–	–	–	–	–	(13,049)	(13,049)	–	(13,049)
Disposal of partial interests in subsidiaries without losing control	40(f)	–	–	–	–	(33)	–	–	(33)	2,358	2,325
Transfer to statutory surplus reserve		–	–	–	3,274	–	–	(3,274)	–	–	–
At 31 December 2017		86,992	446,105*	104,804*	53,378*	(12,126)*	194,124*	1,176,881*	2,050,158	1,732	2,051,890

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**87,098**	86,161
Adjustments for:			
Bank interest income	5	**(537)**	(299)
Fair value losses/(gains):			
Financial assets at fair value through profit or loss	5	**154**	(25)
Finance costs	6	**67,387**	47,534
Amortisation of bank charges on syndicated loans	6	**4,286**	12,127
Depreciation of items of property, plant and equipment	7	**331,934**	312,366
Amortisation of prepaid land lease payments	7	**3,469**	3,052
Loss/(gain) on disposal of items of property, plant and equipment, net	7	**76**	(524)
Write-back of impairment allowance for accounts receivable, net	7	**(6,403)**	(8,869)
Write-off of other receivables	7	**700**	–
Write-back of impairment of other receivables, net	7	**(768)**	(240)
Write-back of impairment of inventories	7	**(642)**	(1,429)
Impairment of goodwill	7	**2,914**	9,064
Loss/(gain) on deregistration of subsidiaries, net	7	**356**	(1,740)
		490,024	457,178
Increase in properties under development		**(19,348)**	–
Decrease/(increase) in inventories		**37,830**	(51,208)
Increase in accounts and bills receivables		**(137,400)**	(265,243)
Decrease/(increase) in prepayments, deposits and other receivables		**(26,178)**	29,112
Increase in accounts and bills payables		**121,334**	22,837
Increase in accrued liabilities and other payables		**32,330**	39,059
Exchange realignment		**(81,492)**	60,739
Cash generated from operations		**417,100**	292,474
Interest received		**537**	299
Interest paid		**(67,344)**	(47,302)
Interest element of finance lease rental payments		**(43)**	(232)
Hong Kong profits tax refunded		**132**	262
Hong Kong profits tax paid		**(10,429)**	(111)
Overseas taxes paid		**(34,112)**	(17,455)
Net cash flows from operating activities		**305,841**	227,935

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13, 31(a)	**(263,441)**	(259,786)
Prepayment of land leases		**(21,943)**	(20,695)
Proceeds from disposal of items of property, plant and equipment		**117**	722
Proceeds from disposal of partial interests in subsidiaries without losing control	40(f)	**–**	2,325
Decrease in an amount due to an associate		**(780)**	–
Increase in long term receivables		**(811)**	(790)
Increase in deposits paid	31(a)	**(20,115)**	(20,997)
Increase in pledged deposits		**(49,092)**	(9,875)
Net cash flows used in investing activities		**(356,065)**	(309,096)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital element of finance lease rental payments		**(4,393)**	(8,629)
Drawdown of bank loans		**2,177,197**	3,081,640
Repayment of bank loans		**(1,968,310)**	(3,036,689)
Dividend paid		**(13,049)**	(13,049)
Net cash flows from financing activities		**191,445**	23,273
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**141,221**	(57,888)
Cash and cash equivalents at beginning of year		**421,723**	475,532
Effect of foreign exchange rate changes, net		**(4,695)**	4,079
CASH AND CASH EQUIVALENTS AT END OF YEAR		**558,249**	421,723
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows	22	**558,249**	421,723

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 26 November 2003 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The principal place of business of the Company is located at 23A, TML Tower, No. 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong. The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 40 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarification to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

(a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has elected to recognise the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39. The adoption of HKFRS 9 has had no significant financial impact on these financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 3, 5 and 24 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018. The cumulative effect of the initial application of HKFRS 15, if any, should be recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. The comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

The Group has elected to apply the practical expedients to recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the Group otherwise would have recognised is one year or less. The Group has also elected not to disclose the information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts with customers that has an original expected duration of one year or less.

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as accrued liabilities and other payables. Under HKFRS 15, the amount is classified as contract liabilities which is included in accrued liabilities and other payables. Therefore, upon adoption of HKFRS 15, the Group reclassified HK$8,339,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, HK$4,468,000 included in accrued liabilities and other payables was contract liabilities in relation to the consideration received from customers in advance.

The adoption of HKFRS 15 has had no other significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application and leases of low-value assets. During 2018, the Group has performed an assessment on the impact of adoption of HKFRS 16. As disclosed in note 32 to the financial statements, at 31 December 2018, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$48,133,000. Certain amounts included therein will be recognised as right-of-use assets and lease liabilities at 1 January 2019 with a corresponding adjustment to the opening balance of retained profits.

The Group is in the process of making an assessment of the impact of other aforementioned new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have any significant impact on its financial performance and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

The Group's interest in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interests in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's interests in associates or joint ventures.

If an interest in an associate becomes an interest in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

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

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

Related parties

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

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

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

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Freehold land	Not depreciated
Leasehold land under finance leases	Over the lease terms
Buildings	5%-20%, or over the lease terms, whichever is shorter
Plant and machinery	10%
Furniture, fixtures and office equipment	12%-20%
Motor vehicles	20%

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

Inventories

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

Properties under development

Properties under development represent properties being developed for sale and are stated at lower of cost and net realisable value. Cost comprises the prepaid land lease payments or cost of land together with any other direct costs attributable to the development of the properties and other related expenses capitalised during the development period. Net realisable value is determined by the directors based on the prevailing market prices on an individual property basis less estimated costs of completion and costs to be incurred in selling the property.

Once the development of these properties is completed, these properties are transferred to completed properties for sale.

If a property under development is intended to be redeveloped into an owner-occupied property, it is transferred to construction in progress at carrying amount.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased assets (continued)

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Accounts and bills receivables are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. This category includes equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as either financial assets at fair value through profit or loss, or loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition (applicable before 1 January 2018)" below.

Loans and receivables

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

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

General approach (continued)

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for accounts receivables which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For accounts receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Financial assets carried at amortised cost

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

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

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

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

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

The Group's financial liabilities include accounts and bills payables, accrued liabilities and other payables, interest-bearing bank borrowings and an amount due to an associate.

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

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

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

Government grants

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Revenue from the sale of knitted fabric, dyed yarn and garment products and provision of related subcontracting is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the knitted fabric, dyed yarn and garment products.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

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

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable before 1 January 2018)

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

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

(ii) from the rendering of services, when the relevant services have been rendered;

(iii) rental income, on a time proportion basis over the lease terms;

(iv) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and

(v) dividend income, when the shareholders' right to receive payment has been established.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Employee benefits

Share-based payments

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external professionally qualified valuer using the binomial/Black-Scholes option pricing model, further details of which are given in note 29 to the financial statements.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payments (continued)

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

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

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

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

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

Pension schemes and other retirement benefits

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

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

Staff benefits are also provided to the staff working in other countries according to the respective countries' statutory requirements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately, the Group accounts for the portions separately. If these portions could not be sold separately or leased out separately under a finance lease, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Otherwise, the property is classified as an owner-occupied property.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividend. The Group considers that if the profits will not be distributed in the foreseeable future, then no withholding taxes should be provided.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, which may cause an adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was nil (2017: HK$3,072,000). Further details are given in note 15.

Impairment allowance for accounts receivable

The Group uses a provision matrix to calculate ECLs for accounts receivable. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's accounts receivables is disclosed in note 20 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of inventories

Management of the Group reviews the inventory ageing analysis at the end of each reporting period. This involves comparison of the carrying value of the aged inventory items with the respective fair value less costs to sell. The purpose is to ascertain whether impairment is required to be made in the financial statements for any obsolete and slow-moving items. In addition, physical counts on all inventories are carried out on a periodic basis in order to determine whether impairment needs to be made in respect of any obsolete and defective inventories identified.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the fabric products segment engages in the production and sale of knitted fabric and dyed yarn and the provision of related subcontracting services;

(b) the garment product segment engages in the production and sale of garment products and provision of related subcontracting services; and

(c) the "others" segment includes the provision of sewage treatment service, the provision of air and ocean freight handling services, mining and property development.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax.

Intersegment revenue and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

During the year, the Group redefined its business divisions to align with the Group's operation development. Accordingly, the segment information of certain subsidiaries previously included in fabric products segment has been reclassified to "others" segment. Moreover, the segment information of certain subsidiaries previously included in "others" segment has been reclassified to garment products segment due to expansion of the Group's garment manufacturing and trading operation during the year. Accordingly, certain comparative operating segment information has been reclassified to conform with current year's presentation.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2018

	Fabric HK$'000	Garment HK$'000	Others HK$'000	Total HK$'000
Segment revenue: (note 5)				
Revenue from external customers	4,445,414	205,544	–	4,650,958
Intersegment sales	33,416	–	–	33,416
	4,478,830	205,544	–	4,684,374
Elimination of intersegment sales				(33,416)
				4,650,958
Segment profit/(loss)	170,066	(12,556)	1,080	158,590
Bank interest income	509	7	21	537
Finance costs	(70,655)	(1,018)	–	(71,673)
Loss on deregistration of a subsidiary	–	(356)	–	(356)
Profit/(loss) before tax	99,920	(13,923)	1,101	87,098
Income tax credit/(expense)	(43,915)	903	26,208	(16,804)
Profit/(loss) for the year	56,005	(13,020)	27,309	70,294
Assets and liabilities				
Segment assets	4,622,960	167,944	148,457	4,939,361
Deferred tax assets	3,519	903	24,814	29,236
Total assets	4,626,479	168,847	173,271	4,968,597
Segment liabilities	2,925,659	81,744	16,128	3,023,531
Deferred tax liabilities	79	–	6,131	6,210
Total liabilities	2,925,738	81,744	22,259	3,029,741
Other segment information:				
Depreciation and amortisation	328,954	2,364	4,085	335,403
Loss on disposal of items of property, plant and equipment, net	71	–	5	76
Impairment/(write-back of impairment) of allowance for accounts receivable, net	(6,679)	276	–	(6,403)
Write-off of other receivables	700	–	–	700
Write-back of impairment of financial assets included in prepayment, deposits and other receivables, net	(558)	–	(210)	(768)
Write-back of impairment of inventories	(642)	–	–	(642)
Impairment of goodwill	–	–	2,914	2,914
Capital expenditure*	283,665	29,562	3,358	316,585

* Capital expenditure consists of additions of and deposits for property, plant and equipment, additions of prepaid land lease payments and deposit for land use right.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2017

	Fabric HK$'000 (Restated)	Garment HK$'000 (Restated)	Others HK$'000 (Restated)	Total HK$'000
Segment revenue:				
Revenue from external customers	4,181,729	11,167	–	4,192,896
Segment profit/(loss)	149,828	(8,103)	2,058	143,783
Bank interest income	295	3	1	299
Finance costs	(59,639)	(22)	–	(59,661)
Gain/(loss) on deregistration of subsidiaries, net	(77)	1,817	–	1,740
Profit/(loss) before tax	90,407	(6,305)	2,059	86,161
Income tax credit/(expense)	(23,550)	–	303	(23,247)
Profit/(loss) for the year	66,857	(6,305)	2,362	62,914
Assets and liabilities				
Segment assets	4,614,064	38,584	79,284	4,731,932
Deferred tax assets	4,409	–	–	4,409
Total assets	4,618,473	38,584	79,284	4,736,341
Segment liabilities	2,651,081	16,850	9,055	2,676,986
Deferred tax liabilities	600	–	6,865	7,465
Total liabilities	2,651,681	16,850	15,920	2,684,451
Other segment information:				
Depreciation and amortisation	310,658	1,280	3,480	315,418
Gain on disposal of items of property, plant and equipment, net	(524)	–	–	(524)
Write-back of impairment allowance for accounts receivable, net	(8,869)	–	–	(8,869)
Impairment/(write-back of impairment) of financial assets included in prepayments, deposits and other receivables, net	(267)	–	27	(240)
Write-back of impairment of inventories	(1,429)	–	–	(1,429)
Impairment of goodwill	–	–	9,064	9,064
Capital expenditure*	286,902	16,560	18,357	321,819

* Capital expenditure consists of additions of and deposits for property, plant and equipment, additions of prepaid land lease payments and deposit for land use right.

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2018 HK$'000	2017 HK$'000
Mainland China	1,468,013	1,164,948
Korea	1,273,855	1,073,189
Hong Kong	551,754	503,827
Taiwan	372,330	406,489
Singapore	301,181	325,706
Others	683,825	718,737
	4,650,958	4,192,896

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

(b) Non-current assets

	2018 HK$'000	2017 HK$'000
Mainland China	1,911,148	2,106,854
Hong Kong	74,559	94,174
Cambodia	44,736	15,165
Singapore	122	57
Others	22,933	6
	2,053,498	2,216,256

The non-current assets information above is based on the locations of the assets and excludes long term receivables and deferred tax assets.

Information about a major customer

During the years ended 31 December 2018 and 2017, the revenue from the Group's largest customer amounted to less than 10% of the Group's total revenue.

5. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers		
Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services	4,445,414	4,181,729
Production and sale of garment products and provision of related subcontracting services	205,544	11,167
	4,650,958	4,192,896

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	Fabric HK$'000	Garment HK$'000	Total HK$'000
Type of goods or services			
Sale of goods	4,445,414	186,413	4,631,827
Subcontracting services	–	19,131	19,131
Total revenue from contracts with customers	4,445,414	205,544	4,650,958
Geographical markets			
Mainland China	1,467,704	309	1,468,013
Korea	1,273,855	–	1,273,855
Hong Kong	424,341	127,413	551,754
Taiwan	370,637	1,693	372,330
Singapore	294,842	6,339	301,181
Others	614,035	69,790	683,825
Total revenue from contracts with customers	4,445,414	205,544	4,650,958
Timing of revenue recognition			
At a point in time	4,445,414	205,544	4,650,958

5. REVENUE, OTHER INCOME AND GAINS, NET (continued)

Revenue from contracts with customers (continued)

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of knitted fabric, dyed yarns and garment products, and provision of related subcontracting services

The performance obligation is satisfied upon delivery of the knitted fabric, dyed yarns and garment products and payment is generally due within one month to three months from delivery, except for certain well-established customers with strong financial strength, good repayment history and creditworthiness, where the credit terms are extended to six months.

	Note	2018 HK$'000	2017 HK$'000
Other income			
Fee income from freight handling services		**8,478**	8,759
Bank interest income		**537**	299
Gross rental income		**392**	465
Subsidy income from the People's Republic of China (the "PRC") government	7	**6,118**	9,365
Others		**22,554**	30,971
		38,079	49,859
Gains/(losses), net			
Fair value gains/(losses):			
Financial assets at fair value through profit or loss – held for trading		**(154)**	25
Other income and gains, net		**37,925**	49,884

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 HK$'000	2017 HK$'000
Interest on bank loans and overdrafts	**67,244**	47,302
Interest on discounted bills	**100**	–
Interest on finance leases	**43**	232
Amortisation of bank charges on syndicated loans	**4,286**	12,127
	71,673	59,661

7. PROFIT BEFORE TAX

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

	Notes	2018 HK$'000	2017 HK$'000
Cost of inventories sold and services provided		4,070,280	3,675,927
Auditor's remuneration		3,868	3,638
Research and development costs		50,397	12,518
Depreciation of items of property, plant and equipment	13	331,934	312,366
Amortisation of prepaid land lease payments	14	3,469	3,052
Employee benefit expense (excluding directors' remuneration – note 8):			
Wages and salaries		510,205	453,519
Pension scheme contributions		55,446	56,997
		565,651	510,516
Minimum lease payments under operating leases		8,704	7,157
Loss/(gain) on disposal of items of property, plant and equipment, net*		76	(524)
Impairment/(write-back of impairment) of financial assets, net:			
Write-back of impairment allowance for accounts receivable, net	20	(6,403)	(8,869)
Impairment of other receivables***		–	86
Write-back of impairment of financial assets included in prepayments, deposits and other receivables		(768)	(326)
		(7,171)	(9,109)
Write-off of other receivables*		700	–
Write-back of impairment of inventories**		(642)	(1,429)
Impairment of goodwill*	15	2,914	9,064
Loss/(gain) on deregistration of subsidiaries, net*	40(i)	356	(1,740)
Foreign exchange differences, net*		15,111	32
Subsidy income from the PRC government****		(6,118)	(9,365)

* These amounts are included in "Other operating expenses, net" on the face of the consolidated statement of profit or loss.

** These amounts are included in "Cost of sales" on the face of the consolidated statement of profit or loss.

*** Included in the above impairment allowance for other receivables as at 31 December 2017 was an allowance for other receivables of HK$86,000 with a carrying amount of HK$213,000 before impairment allowance. The impaired other receivables were not expected to be recovered.

**** There are no unfulfilled conditions or contingencies relating to these grants.

7. PROFIT BEFORE TAX (continued)

The cost of inventories sold and services provided includes depreciation, staff costs and write-back of impairment of inventories of HK$761,814,000 (2017: HK$686,470,000), which are also included in the respective total amounts disclosed separately above.

The research and development costs include depreciation and staff costs of HK$22,198,000 for the year ended 31 December 2018 (2017: HK$11,641,000), which are also included in the respective total amounts disclosed separately above.

At 31 December 2018, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2017: Nil).

8. DIRECTORS' REMUNERATION

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

	2018 **HK$'000**	2017 HK$'000
Fees	**720**	720
Other emoluments:		
Salaries, allowances and benefits in kind	**17,163**	17,300
Discretionary bonuses	**1,295**	1,332
Pension scheme contributions	**72**	90
	18,530	18,722
	19,250	19,442

8. DIRECTORS' REMUNERATION (continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2018					
Executive directors:					
Tai Chin Chun	–	5,263	411	18	5,692
Tai Chin Wen	–	4,300	334	18	4,652
Cheung So Wan	–	2,540	200	18	2,758
Wong Siu Yuk	–	2,540	200	18	2,758
Chong Chau Lam	–	1,920	150	–	2,070
Wong Wai Kong^	–	600	–	–	600
Independent non-executive directors:					
Ting Kay Loong#	240	–	–	–	240
Ho Gilbert Chi Hang	240	–	–	–	240
Wu Tak Lung	240	–	–	–	240
Total	720	17,163	1,295	72	19,250
2017					
Executive directors:					
Tai Chin Chun	–	4,959	382	18	5,359
Tai Chin Wen	–	4,086	315	18	4,419
Cheung So Wan	–	2,340	180	18	2,538
Wong Siu Yuk	–	2,340	180	18	2,538
Chong Chau Lam	–	1,820	140	–	1,960
Wong Wai Kong^	–	1,755	135	18	1,908
Independent non-executive directors:					
Chu Hak Ha, Mimi*	128	–	–	–	128
Ting Kay Loong#	112	–	–	–	112
Ho Gilbert Chi Hang	240	–	–	–	240
Wu Tak Lung	240	–	–	–	240
Total	720	17,300	1,332	90	19,442

* Ms. Chu Hak Ha, Mimi resigned as an independent non-executive director of the Company on 14 July 2017.

Mr. Ting Kay Loong was appointed as an independent non-executive director of the Company on 14 July 2017.

^ Dr. Wong Wai Kong was redesignated as a non-executive director of the Company with effect from 1 January 2018.

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

During the year, no emolument (2017: Nil) was paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2017: five) directors, details of whose remuneration are set out in note 8 above. Details of the remaining one (2017: Nil) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits in kind	2,387	–
Discretionary bonuses	98	–
Pension scheme contributions	18	–
	2,503	–

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

	Number of employees	
	2018	2017
HK$2,500,001 to HK$3,000,000	1	–

10. INCOME TAX

	2018 HK$'000	2017 HK$'000
Current tax – Hong Kong		
Charge for the year	7,914	6,900
Overprovision in prior years	(57)	(40)
Current tax – Elsewhere		
Charge for the year	8,725	19,804
Land appreciation tax	21,459	–
Underprovision/(overprovision) in prior years	5,817	(2,679)
Deferred tax credit (note 27)	(27,054)	(738)
Total tax charge for the year	16,804	23,247

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 16.5% (2017: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

Pursuant to the Corporate Income Tax Law of the PRC being effective on 1 January 2008, the corporate income tax rate is unified to 25% for all enterprises in Mainland China.

10. INCOME TAX (continued)

PRC land appreciation tax

Land appreciation tax in the PRC is levied at progressive rates on the appreciation of land value under the applicable regulations.

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory rates for the jurisdictions/countries in which the Company and the majority of its subsidiaries operate to the tax expense/(credit) at the effective tax rates is as follows:

2018

	Hong Kong HK$'000	Mainland China HK$'000	Others HK$'000	Total HK$'000
Profit/(loss) before tax	33,013	71,331	(17,246)	87,098
Tax at the statutory tax rate	5,447	17,833	(3,454)	19,826
Tax concession/lower tax rate enacted by local authority	–	(5,348)	–	(5,348)
Adjustments in respect of current tax of prior years	(57)	5,822	(5)	5,760
Income not subject to tax	(204)	(7,518)	–	(7,722)
Expenses not deductible for tax	2,734	2,888	12	5,634
Tax losses utilised	(760)	(1,008)	(15)	(1,783)
Tax losses not recognised	159	5,389	3,470	9,018
Others	(1,421)	(7,147)	(13)	(8,581)
Tax charge/(credit) at the Group's effective rate	5,898	10,911	(5)	16,804

10. INCOME TAX (continued)

2017

	Hong Kong HK$'000	Mainland China HK$'000	Others HK$'000	Total HK$'000
Profit/(loss) before tax	25,351	66,040	(5,230)	86,161
Tax at the statutory tax rate	4,183	16,510	(1,012)	19,681
Adjustments in respect of current tax of prior years	(40)	(2,679)	–	(2,719)
Income not subject to tax	(270)	(9,916)	(3)	(10,189)
Expenses not deductible for tax	2,157	5,599	935	8,691
Tax losses not recognised	793	–	79	872
Others	(215)	7,126	–	6,911
Tax charge/(credit) at the Group's effective rate	6,608	16,640	(1)	23,247

11. DIVIDEND

The proposed final dividend for the year of HK1.5 cents (2017: HK1.5 cents) per ordinary share, in aggregate of approximately HK$13,049,000 (2017: HK$13,049,000), is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect the final dividend payable.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK$72,826,000 (2017: HK$64,575,000), and 869,919,000 (2017: 869,919,000) ordinary shares in issue during the year.

The Company had no potentially dilutive ordinary shares during the years ended 31 December 2018 and 2017.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2018						
Cost:						
At 1 January 2018	637,179	3,949,402	108,608	42,261	75,366	4,812,816
Additions	15,635	69,749	6,822	4,933	178,758	275,897
Disposals	–	(117)	(157)	(1,161)	–	(1,435)
Transfers	–	181,098	2,102	–	(183,200)	–
Exchange realignment	(28,163)	(206,489)	(4,760)	(1,630)	(5,014)	(246,056)
At 31 December 2018	624,651	3,993,643	112,615	44,403	65,910	4,841,222
Accumulated depreciation:						
At 1 January 2018	246,176	2,401,636	85,234	29,509	–	2,762,555
Charge for the year	29,734	287,815	9,854	4,531	–	331,934
Disposals	–	(48)	(157)	(1,037)	–	(1,242)
Exchange realignment	(13,007)	(130,542)	(3,986)	(1,236)	–	(148,771)
At 31 December 2018	262,903	2,558,861	90,945	31,767	–	2,944,746
Net book value:						
At 31 December 2018	361,748	1,434,782	21,670	12,636	65,910	1,896,746

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2017						
Cost:						
At 1 January 2017	563,699	3,488,629	93,302	37,962	91,803	4,275,395
Additions	13,789	48,875	8,566	6,331	202,566	280,127
Disposals	–	(262)	–	(3,646)	–	(3,908)
Transfers	28,023	196,299	1,851	–	(226,173)	–
Exchange realignment	31,668	215,861	4,889	1,614	7,170	261,202
At 31 December 2017	637,179	3,949,402	108,608	42,261	75,366	4,812,816
Accumulated depreciation:						
At 1 January 2017	205,057	2,000,309	72,270	27,328	–	2,304,964
Charge for the year	28,097	270,950	8,920	4,399	–	312,366
Disposals	–	(243)	–	(3,467)	–	(3,710)
Exchange realignment	13,022	130,620	4,044	1,249	–	148,935
At 31 December 2017	246,176	2,401,636	85,234	29,509	–	2,762,555
Net book value:						
At 31 December 2017	391,003	1,547,766	23,374	12,752	75,366	2,050,261

The net carrying amounts of the Group's items of property, plant and equipment held under finance leases included in the total amounts of plant and machinery were as follows:

	2018 HK$'000	2017 HK$'000
Plant and machinery	**–**	17,470

As at 31 December 2018, the Group was in the process of applying for the building ownership certificates in respect of certain self-used properties with net book value of approximately HK$5.4 million (2017: HK$6.2 million) and approximately HK$106.7 million (2017: HK$120.2 million) situated in Panyu and Enping, the PRC, respectively. The Company's directors confirmed that, based on the advice from the Company's legal counsel, as the Group has properly obtained the land use right certificates in respect of the land on which the aforementioned self-used properties are erected, and therefore are in the opinion that there is no legal barrier or otherwise for the Group to obtain the building ownership certificates from the relevant Mainland China authority.

13. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2017, the Group was in the process of applying for the building ownership certificate in respect of a property with net book value of approximately HK$14.7 million situated in Panyu. The Company's directors confirmed that, based on the advice from the Company's legal counsel, as the Group has entered into a legal binding property sale agreement with the seller of the property, the seller of the property should adhere to the terms and conditions set forth in the property sale agreement to apply and transfer the building ownership certificate of the property to the Group, and therefore are in the opinion that there is no legal barrier or otherwise for the Group to obtain the building ownership certificate from the relevant Mainland China authority. During the year, the building ownership certificate of aforementioned property has been obtained by the Group.

At 31 December 2018, certain of the Group's land and buildings with a net carrying amount of HK$56,848,000 (2017: HK$60,401,000) were pledged to secure a bank loan of HK$9,940,000 (2017: HK$15,620,000) granted to the Group.

14. PREPAID LAND LEASE PAYMENTS

	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January	134,751	110,279
Additions during the year	21,943	20,695
Transfer to properties under development (note 18)	(25,255)	–
Amortised during the year	(3,469)	(3,052)
Exchange realignment	(6,586)	6,829
Carrying amount at 31 December	121,384	134,751
Current portion included in prepayments, deposits and other receivables	(3,249)	(3,519)
Non-current portion	118,135	131,232

15. GOODWILL

	HK$'000
Cost:	
At 1 January 2017	12,811
Exchange realignment	(230)
At 31 December 2017 and 1 January 2018	12,581
Exchange realignment	(643)
At 31 December 2018	11,938
Accumulated impairment:	
At 1 January 2017	–
Impairment during the year (note 7)	9,064
Exchange realignment	445
At 31 December 2017 and 1 January 2018	9,509
Impairment during the year (note 7)	2,914
Exchange realignment	(485)
At 31 December 2018	11,938
Net carrying amount:	
At 31 December 2018	–
At 31 December 2017	3,072

Impairment testing of goodwill

Goodwill acquired through a business combination during the year ended 31 December 2016 had been allocated to cash-generating units (the "CGU") from the acquisition of 廣州市番禺東涌工業污水處理有限公司 ("Sewage Treatment Company"), which is a component of the "Others" operating segment, for impairment testing.

As at 31 December 2018, the recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period with a growth rate approved by senior management, which is based on management's expectation for market development. The discount rate applied to the cash flow projections is 14.6% (2017: 16.4%) and cash flows beyond the five-year period were extrapolated using a growth rate of 2.5% (2017: 2.5%).

Assumptions were used in the value-in-use calculation of the CGU for the years ended 31 December 2018 and 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

15. GOODWILL (continued)

Impairment testing of goodwill (continued)

Budgeted profit — The basis used to determine the value assigned to the budgeted profit is the profit achieved in the year immediately before the budget year, adjusted for expected efficiency improvement, and expected market development.

Discount rate — The discount rate used is before tax and reflects specific risks relating to the relevant unit.

As at 31 December 2018, the estimated recoverable amount of the CGU of HK$40,682,000 (2017: HK$47,186,000) was below its carrying amount and an impairment loss of HK$2,914,000 (2017: HK$9,064,000) was recognised in the consolidated income statement. The impairment is made based on the result of impairment test for the goodwill using the value in use in accordance with HKAS 36, which incorporated the deteriorated results of the CGU during the year.

16. INTEREST IN AN ASSOCIATE

	2018 HK$'000	2017 HK$'000
Share of net assets	–	–

The amount due to an associate included in the Group's current liabilities is unsecured, interest-free and repayable on demand.

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ business	Percentage of ownership interest attributable to the Group		Principal activity
			2018	2017	
Kam Hing International Limited* ("Kam Hing International")	Ordinary shares of US$1 each	BVI	25	25	Investment holding

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

As at 31 December 2018, the Group's shareholding in Kam Hing International is held through a wholly-owned subsidiary of the Company.

The Group has discontinued the recognition of its share of losses of an associate because the share of losses of the associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of this associate for the current year and cumulatively were HK$195,000 (2017: Nil) and HK$292,000 (2017: HK$97,000), respectively.

16. INTEREST IN AN ASSOCIATE (continued)

The following table illustrates the financial information of the Group's associate that is not material:

	2018 HK$'000	2017 HK$'000
Share of the associate's loss for the year	**–**	–
Share of the associate's total comprehensive expenses	**–**	–
Carrying amount of the Group's interest in the associate	**–**	–

17. DEPOSITS PAID

	2018 HK$'000	2017 HK$'000
Deposits paid for:		
Acquisition of		
Property, plant and equipment	**7,279**	12,456
Land use right	**22,932**	11,466
Others	**2,243**	873
	32,454	24,795

18. PROPERTIES UNDER DEVELOPMENT

	2018 HK$'000	2017 HK$'000
At the beginning of the reporting period	**–**	–
Transfers from prepaid land lease payments (note 14)	**25,255**	–
Additions	**19,348**	–
Exchange realignment	**(1,757)**	–
At the end of the reporting period	**42,846**	–

19. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	**554,861**	645,237
Work in progress	**326,927**	324,930
Finished goods	**245,570**	194,379
	1,127,358	1,164,546

20. ACCOUNTS AND BILLS RECEIVABLES

	2018 HK$'000	2017 HK$'000
Accounts receivable	756,587	651,865
Impairment	(7,697)	(15,175)
	748,890	636,690
Bills receivable	241,658	210,055
	990,548	846,745

The Group's trading terms with its customers are generally on credit with terms of up to three months and are non-interest-bearing (except for certain well-established customers with strong financial strength, good repayment history and creditworthiness, where the credit terms are extended to six months). The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its accounts and bills receivables balances.

An ageing analysis of the Group's accounts and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2018 HK$'000	2017 HK$'000
Within 1 month	399,424	328,404
1 to 2 months	224,629	239,766
2 to 3 months	144,496	123,326
Over 3 months	221,999	155,249
	990,548	846,745

20. ACCOUNTS AND BILLS RECEIVABLES (continued)

The movements in the loss allowance for impairment of accounts and bills receivables are as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	15,175	34,359
Write-back of impairment losses, net (note 7)	(6,403)	(8,869)
Write-off as uncollectible	(760)	(10,315)
Exchange realignment	(315)	–
At 31 December	7,697	15,175

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, accounts receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's accounts receivables using a provision matrix:

As at 31 December 2018

		Past due			
	Current	Less than 1 month	1 to 6 months	Over 6 months	Total
Expected credit loss rate	0%	0.5%	4.3%	100%	1.0%
Gross carrying amount (HK$'000)	546,395	149,931	55,626	4,635	756,587
Expected credit losses (HK$'000)	–	685	2,377	4,635	7,697

20. ACCOUNTS AND BILLS RECEIVABLES (continued)

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above impairment allowance for accounts and bills receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was an allowance for individually impaired accounts receivable in aggregate of HK$15,175,000 with a carrying amount before impairment allowance in aggregate of HK$29,126,000. The individually impaired accounts receivable as at 31 December 2017 related to customers that were in default or delinquency in payments.

An ageing analysis of the accounts and bills receivables as at 31 December 2017 that were not considered to be impaired under HKAS 39 is as follows:

	2017 HK$'000
Neither past due nor impaired	521,050
Less than 1 month past due	199,149
1 to 6 months past due	112,556
Over 6 months past due	39
	832,794

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

Receivables that were past due but not impaired relate to a number of independent customers that had a good repayment record with the Group. Based on past experience, the directors of the Company were of the opinion that no impairment allowance under HKAS 39 was necessary in respect of these balances as there has not been a significant change in credit quality and the balances were still considered fully recoverable.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK$'000	2017 HK$'000
Listed equity investment, at fair value	**160**	314

The above equity investment at 31 December 2018 was classified as a financial assets at fair value through profit or loss as it was held for trading.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Notes	2018 HK$'000	2017 HK$'000
Cash and bank balances		**558,249**	421,723
Pledged deposits		**58,967**	9,875
		617,216	431,598
Less: Pledged deposits for bank loans	25	**(1,599)**	–
Pledged deposits for bills payable	23	**(55,250)**	(5,673)
Pledged deposits for general banking facilities*		**(2,118)**	(4,202)
Cash and cash equivalents		**558,249**	421,723

* The balance was pledged to banks in respect of general trading facilities granted by banks to a subsidiary of the Company.

As at 31 December 2018, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$92,516,000 (2017: HK$75,364,000). RMB is not freely convertible into other currencies, however, under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Pledged bank deposits earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

23. ACCOUNTS AND BILLS PAYABLES

An ageing analysis of the Group's accounts and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 HK$'000	2017 HK$'000
Within 3 months	**650,850**	610,280
3 to 6 months	**129,307**	48,627
Over 6 months	**1,637**	1,553
	781,794	660,460

The accounts and bills payables are non-interest-bearing and are normally settled on credit terms of one to four months.

As at 31 December 2018, bills payable of HK$203,645,000 (2017: HK$37,571,000) were included in the above accounts and were secured by the Group's pledged bank deposits of HK$55,250,000 (2017: HK$5,673,000) (note 22).

24. ACCRUED LIABILITIES AND OTHER PAYABLES

Included in accrued liabilities and other payables was contract liabilities of HK$4,468,000 as at 31 December 2018 and HK$8,339,000 as at 1 January 2018.

Contract liabilities include short-term advances received to deliver knitted fabric, dyed yarns and garment products and provision of related subcontracting services. The decrease in contract liabilities in 2018 was mainly due to the Group performed its obligation under respective contracts during the year.

25. INTEREST-BEARING BANK BORROWINGS

	2018			2017		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current (Note)						
Finance lease payables (note 26)	–	–	–	HIBOR + 2.25	2018	4,393
Bank loans — secured	Weighted average of HIBOR/LIBOR + 0.95 to 1.55	2019	21,280	HIBOR + 1.55	2018	5,680
Bank loans — unsecured	Weighted average of 3.9 and HIBOR/LIBOR + 0.7 to 1.95	2019 or on demand	1,154,721	Weighted average of 2.6, 2.8 and HIBOR/LIBOR + 0.7 to 1.95	2018 or on demand	696,747
			1,176,001			706,820
Non-current						
Bank loan — secured	HIBOR + 1.55	2020	4,260	HIBOR + 1.55	2019-2020	9,940
Bank loans — unsecured	HIBOR + 1.55 to 1.95	2020–2022	823,333	Weighted average of HIBOR/LIBOR + 1.5 to 1.9	2019-2022	1,078,054
			827,593			1,087,994
			2,003,594			1,794,814

25. INTEREST-BEARING BANK BORROWINGS (continued)

	2018 HK$'000	2017 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand (Note)	**1,176,001**	702,427
In the second year	**552,547**	300,401
In the third to fifth years, inclusive	**275,046**	787,593
	2,003,594	1,790,421
Finance lease payables:		
Within one year	**–**	4,393
	2,003,594	1,794,814

Note: For the purpose of the above analysis, the Group's bank loans in the amount of HK$128,808,000 (2017: HK$13,536,000) containing a repayment on demand clause are included within current interest-bearing bank borrowings and analysed into bank loans within one year or on demand.

Based on the maturity terms of the bank loans, the amounts repayable in respect of the bank loans are: HK$1,047,193,000 (2017: HK$688,891,000) repayable within one year; HK$614,714,000 (2017: HK$305,514,000) repayable in the second year; and HK$314,687,000 (2017: HK$796,016,000) repayable in the third to fifth years, inclusive.

As at 31 December 2018, save as disclosed elsewhere in these financial statements, the banking facilities of the Group were also supported by corporate guarantees executed by the Company and certain subsidiaries of the Company, and the pledge of certain property, plant and equipment (note 13), and the pledge of certain time deposits (note 22).

As at 31 December 2017, the finance lease payables were supported by corporate guarantees executed by the Company and the underlying property, plant and equipment (note 13).

26. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its business operation (note 13). These leases are classified as finance leases and had remaining lease terms of one year as at 31 December 2017.

At 31 December 2018, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Amounts payable:				
Within one year	**–**	4,436	**–**	4,393
Total minimum finance lease payments	**–**	4,436	**–**	4,393
Future finance charges	**–**	(43)		
Total net finance lease payables	**–**	4,393		
Portion classified as current liabilities (note 25)	**–**	(4,393)		
Non-current portion	**–**	–		

27. DEFERRED TAX

The movements in deferred tax assets and liabilities of the Group during the year were as follows:

Deferred tax assets

	Losses available for offsetting against future taxable profits		Deductible temporary difference		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
At 1 January	**–**	–	**4,409**	4,100	**4,409**	4,100
Deferred tax credited to the statement of profit or loss during the year (note 10)	**903**	–	**25,247**	62	**26,150**	62
Exchange realignment	**–**	–	**(1,323)**	247	**(1,323)**	247
At 31 December	**903**	–	**28,333**	4,409	**29,236**	4,409

27. DEFERRED TAX (continued)

The movements in deferred tax assets and liabilities of the Group during the year were as follows: (continued)

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation		Fair value adjustments arising from acquisition of a subsidiary		Total	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**600**	854	**6,865**	6,883	**7,465**	7,737
Deferred tax credited to the statement of profit or loss during the year (note 10)	**(521)**	(254)	**(383)**	(422)	**(904)**	(676)
Exchange realignment	**–**	–	**(351)**	404	**(351)**	404
At 31 December	**79**	600	**6,131**	6,865	**6,210**	7,465

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with interests in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$333 million at 31 December 2018 (2017: HK$299 million).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

The Group has estimated tax losses arising in Hong Kong, Mainland China, Singapore and Cambodia of HK$63,518,000 (2017: HK$35,332,000) that are available for offsetting against future taxable profits of the Company and the respective subsidiaries in which the losses arose. No deferred tax assets have been recognised in respect of these losses as the directors consider it is not probable that future taxable profit will be available against which these tax losses can be utilised.

28. SHARE CAPITAL

	2018 HK$'000	2017 HK$'000
Authorised:		
2,000,000,000 (2017: 2,000,000,000) ordinary shares of HK$0.1 each	**200,000**	200,000
Issued and fully paid:		
869,919,000 (2017: 869,919,000) ordinary shares of HK$0.1 each	**86,992**	86,992

Share options

Details of the Company's share option scheme are included in note 29 to the financial statements.

29. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any consultant, advisor, manager or officer who provides research, development, other technological support or services to the Group, the Company's shareholders, and any non-controlling shareholder of the Company's subsidiaries. The Scheme became effective on 9 June 2014 and unless otherwise cancelled or amended, will remain in force for 10 years commencing from 9 June 2014.

The maximum number of shares which may be allotted and issued upon the exercise of the share options to be granted under the Scheme is 86,991,900 shares, representing 10% of the share capital of the Company as at the date of adoption of the scheme mandate limit and as at 31 December 2018. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

29. SHARE OPTION SCHEME (continued)

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the nominal value of the Company's shares; (ii) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (iii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

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

During the year, no share options were granted by the Company under the Scheme.

At the date of approval of these financial statements, the Company had no share options outstanding under the Scheme.

30. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

The capital reserve of the Group represents (i) the premium of HK$93,378,000 arising from the issue of shares by Joint Result Holdings Limited ("Joint Result") for settlement of the amounts due to directors on 31 December 2003; and (ii) the excess of the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation which took place on 24 August 2004, for the Company became the holding company of the companies now comprising the Group (the "Group Reorganisation"), over the nominal value of the 1,000,000 shares of HK$0.1 each of the Company issued in exchange therefor and the then existing 1,000,000 shares of HK$0.1 each credited as fully paid at par.

In accordance with the relevant PRC regulations, the subsidiaries which are established in the PRC are required to transfer 10% of their profits after tax, as determined under the PRC accounting regulations, to the statutory surplus reserve, until the balance of the reserve reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory surplus reserve may be used to offset against accumulated losses of the respective subsidiaries.

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, non-current deposits paid of HK$12,456,000 (2017: HK$20,341,000) were transferred to property, plant and equipment.

(b) Changes in liabilities arising from financing activities

	Bank loans HK$'000	**Finance lease payables** HK$'000
At 1 January 2017	1,733,343	13,022
Changes from financing cash flows	44,951	(8,629)
Interest expense	59,429	232
Interest paid classified as operating cash flows	(47,302)	(232)
At 31 December 2017 and 1 January 2018	1,790,421	4,393
Changes from financing cash flows	208,887	(4,393)
Interest expense	71,630	43
Interest paid classified as operating cash flows	(67,344)	(43)
At 31 December 2018	2,003,594	–

32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its buildings under operating lease arrangements, with leases negotiated for terms ranging from two to five years.

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	90	154
In the second to fifth years, inclusive	5	40
	95	194

(b) As lessee

The Group leases certain properties and plant and machinery under operating lease arrangements, with leases negotiated for terms ranging from one to fifty years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	7,527	5,849
In the second to fifth years, inclusive	17,899	17,802
After five years	22,707	28,688
	48,133	52,339

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32(b) above, the Group had the following commitments as at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
Contracted but not provided for:		
Purchases of machinery	**6,346**	38,180
Purchase of land and buildings	**545**	671
Construction in progress	**26,791**	17,412
Construction of new manufacturing facilities	**184,217**	194,145
Construction of properties under development	**15,258**	–
	233,157	250,408

The Group had outstanding commitments amounting to HK$573,455,000 (2017: HK$343,216,000) as at the end of the reporting period in respect of the investments in subsidiaries.

At 31 December 2018, the Group had outstanding irrevocable letters of credit amounting to HK$138,641,000 (2017: HK$275,916,000).

34. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2018 HK$'000	2017 HK$'000
Rental expenses on office premises and staff quarters paid to Tai Chin Chun and Tai Chin Wen	(i)	**462**	618
Rental expenses on staff quarters and car park spaces paid to Cheung So Wan and Wong Siu Yuk	(ii)	**549**	541
Rental expenses on staff quarters paid to Tai Tang Tat	(iii)	**113**	110

34. RELATED PARTY TRANSACTIONS (continued)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year: (continued)

Notes:

(i) The Group entered into tenancy agreements with Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company, for the rental of (i) store rooms at a monthly rental of HK$27,000 (2017: HK$27,000) from 1 May 2016 for terms of two years, (ii) a staff quarter at a monthly rental of HK$27,000 from 1 May 2018 to 31 August 2018, and at a monthly rental of HK$31,500 from 1 September 2018 for terms of two years, (iii) a staff quarter at a monthly rental of HK$15,000 from 1 January 2018 to 31 August 2018, (iv) a staff quarter at a monthly rental of HK$12,000 from 1 January 2016 for terms of two years, and (v) a staff quarter at monthly rentals of HK$12,500 from 1 January 2016 for terms of two years, respectively, based on the terms mutually agreed by both parties.

(ii) The Group entered into tenancy agreements with Ms. Cheung So Wan and Ms. Wong Siu Yuk, directors of the Company, for the rental of (i) staff quarters at monthly rental of approximately HK$17,000 (2017: HK$17,000) from 1 July 2017 for terms of two years and six months, and (ii) car park spaces at monthly rentals of HK$20,000 (2017: HK$20,000) and HK$8,000 (2017: HK$8,000) from 1 June 2017 and 1 July 2017, respectively, for terms of two years, based on the terms mutually agreed by both parties.

(iii) The Group entered into tenancy agreement with Mr. Tai Tang Tat, a son of Mr. Tai Chin Wen and Ms. Wong Siu Yuk, for the rental of staff quarters at a monthly rental of approximately HK$9,400 (2017: HK$9,200) from 1 March 2016 for terms of three years, based on the terms mutually agreed by both parties. During the year ended 31 December 2017, the lease term of the tenancy agreement was extended to 31 December 2019.

(b) The Group is still in the process of applying for the land use planning for construction work permit, construction project and planning permit, commencement of construction work permit in respect of a six-storey factory building, with a net book value of approximately HK$1.2 million (2017: HK$1.5 million) as at 31 December 2018.

Each of Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company, together with their respective spouses, who are deemed as the shareholders of the Company under the Securities and Futures Ordinance, have given joint and several indemnities in favour of the Group in respect of the aforementioned buildings/structures.

(c) Outstanding balance with a related party:

Details of the Group's balance with its associate as at the end of the reporting period are disclosed in note 16 to the financial statements.

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

	2018 **HK$'000**	2017 HK$'000
Short-term employee benefits	**27,217**	27,212
Post-employment benefits	**162**	180
	27,379	27,392

Further details of directors' emoluments are included in note 8 to the financial statements.

35. FINANCIAL INSTRUMENTS BY CATEGORY

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

2018

Financial assets

	Financial assets at fair value through profit or loss – held for trading HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Accounts and bills receivables	–	990,548	990,548
Financial assets included in prepayments, deposits and other receivables	–	73,529	73,529
Financial assets at fair value through profit or loss	160	–	160
Pledged deposits	–	58,967	58,967
Cash and cash equivalents	–	558,249	558,249
	160	1,681,293	1,681,453

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Accounts and bills payables	781,794
Financial liabilities included in accrued liabilities and other payables	69,792
Due to an associate	1,926
Interest-bearing bank borrowings	2,003,594
	2,857,106

35. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

2017

Financial assets

	Financial assets at fair value through profit or loss – held for trading HK$'000	Loans and receivables HK$'000	Total HK$'000
Accounts and bills receivables	–	846,745	846,745
Financial assets included in prepayments, deposits and other receivables	–	63,468	63,468
Financial assets at fair value through profit or loss	314	—	314
Pledged deposits	–	9,875	9,875
Cash and cash equivalents	–	421,723	421,723
	314	1,341,811	1,342,125

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Accounts and bills payables	660,460
Financial liabilities included in accrued liabilities and other payables	35,875
Due to an associate	2,706
Interest-bearing bank borrowings	1,794,814
	2,493,855

36. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

At 31 December 2018, the Group endorsed certain bank bills receivable in the PRC (the "Endorsed Bills") with a carrying amount of RMB7,401,000 (equivalent to HK$8,410,000) (2017: RMB7,812,000 (equivalent to HK$9,356,000)) to certain suppliers in order to settle the accounts payable or other payables due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated accounts payable settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of accounts payable and other payables settled by the Endorsed Bills during the year to which the suppliers have recourse was RMB7,401,000 (equivalent to HK$8,410,000) (2017: RMB7,812,000 (equivalent to HK$9,356,000)) as at 31 December 2018.

Transferred financial assets that are derecognised in their entirety

(a) Bills endorsement under the Law of Negotiable Instruments of the PRC

At 31 December 2018, the Group endorsed certain bank bills receivable in the PRC (the "Derecognised Bills") which were originally endorsed by its customers, to certain of its suppliers for settling the accounts payables or other payables due to such suppliers with a carrying amount in aggregate of RMB74,310,000 (equivalent to HK$84,443,000) (2017: RMB70,607,000 (equivalent to HK$84,559,000)). The Derecognised Bills have a remaining maturity from one to five months (2017: one to six months) at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors of the Company, the Group has transferred substantially all risks and rewards related to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated accounts payable or other payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors of the Company, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the years ended 31 December 2018 and 31 December 2017, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were derecognised from the Continuing Involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the years ended 31 December 2018 and 31 December 2017.

(b) Discounting of bills receivable

At 31 December 2018, the Group discounted certain bills receivable (the "Derecognised Discounted Bills") with a carrying amount of HK$12,732,000 (2017: Nil) to certain reputable banks in Hong Kong. In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Discounted Bills which were discounted on a non-recourse basis. Accordingly, it has derecognised the full carrying amounts of the Derecognised Discounted Bills. All Derecognised Discounted Bills have a remaining maturity period of one month at the end of the reporting period.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Discounted Bills.

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, accounts and bills receivables, accounts and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in accrued liabilities and other payables, and an amount due to an associate approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

The fair values of the non-current portion of other receivables and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair value of listed equity investment is based on quoted market price.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using quoted prices in active markets (Level 1) HK$'000
As at 31 December 2018	
Financial assets at fair value through profit or loss	**160**
As at 31 December 2017	
Financial assets at fair value through profit or loss	**314**

As at 31 December 2018, the Group had no financial instrument measured at fair value under Level 3 (2017: Nil).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets (2017: Nil).

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts and bills receivables, deposits paid, other receivables, accounts and bills payables, accrued liabilities and other payables and an amount due to an associate, which arise directly from its operations.

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

Interest rate risk

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

The Group regularly reviews and monitors the floating interest rate borrowings in order to manage its interest rate risk. The interest-bearing bank borrowings are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to the statement of profit or loss as earned/incurred.

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

	Increase in interest rate %	Decrease in the Group's profit before tax HK$'000
2018	**1**	**20,036**
2017	1	17,948

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

Foreign currency risk is the risk of losses due to adverse movements in foreign exchange rates relating to investments denominated in foreign currencies. The Group has transactional currency exposures. Such exposures arise as a substantial portion of sales and purchase transactions is conducted by the Group's subsidiaries in US$ and RMB with the counterparties. As the Hong Kong dollar is virtually pegged to US$, the Group does not expect any significant movements in the US$/Hong Kong dollar exchange rate in the foreseeable future.

The Group's assets and liabilities are primarily denominated in Hong Kong dollars, US$ and RMB.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in the Group's profit before tax HK$'000
2018		
If Hong Kong dollar weakens against RMB	**3**	**(3,664)**
If Hong Kong dollar strengthens against RMB	**(3)**	**3,664**
2017		
If Hong Kong dollar weakens against RMB	3	2,887
If Hong Kong dollar strengthens against RMB	(3)	(2,887)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	**Stage 2** HK$'000	**Stage 3** HK$'000	**Simplified approach** HK$'000	HK$'000
Accounts receivables*	–	–	–	756,587	756,587
Bills receivable — Normal**	241,658	–	–	–	241,658
Financial assets included in prepayments, deposits and other receivables					
— Normal**	73,529	–	–	–	73,529
— Doubtful**	–	–	1,047	–	1,047
Pledged deposits					
— Not yet past due	58,967	–	–	–	58,967
Cash and cash equivalents					
— Not yet past due	558,249	–	–	–	558,249
	932,403	–	1,047	756,587	1,690,037

* For accounts receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, deposits and other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Maximum exposure as at 31 December 2017

Since the Group trades only with recognised and creditworthy third parties, there is generally no requirement for collateral.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, an equity investment at fair value through profit or loss, deposits paid, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The Group's credit risk exposure is spread over a number of counterparties and customers. Hence, it has no significant concentration of credit risk by a single debtor.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds by considering the maturity of both its financial instruments and financial assets (e.g. accounts and bills receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bills payable and interest-bearing bank borrowings to meet its working capital and capital expenditure requirements.

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

	2018		
	On demand or less than 12 months HK$'000	**1 to 5 years HK$'000**	**Total HK$'000**
Accounts and bills payables	**781,794**	**–**	**781,794**
Financial liabilities included in accrued liabilities and other payables	**69,792**	**–**	**69,792**
Due to an associate	**1,926**	**–**	**1,926**
Interest-bearing bank borrowings*	**1,180,287**	**832,512**	**2,012,799**
	2,033,799	**832,512**	**2,866,311**

	2017		
	On demand or less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Accounts and bills payables	660,460	–	660,460
Financial liabilities included in accrued liabilities and other payables	35,875	–	35,875
Due to an associate	2,706	–	2,706
Interest-bearing bank borrowings*	711,149	1,097,199	1,808,348
	1,410,190	1,097,199	2,507,389

* Included in interest-bearing bank borrowings are bank loans of HK$128,808,000 (2017: HK$13,536,000) containing a repayment on demand clause giving the lender the unconditional right to call the loan at any time and therefore, for the purpose of the above maturity profile, these amounts are classified as "on demand".

Notwithstanding the above repayment on demand clause, the directors do not believe that the bank loans and finance lease payables will be called in their entirety within 12 months, and they consider that the bank loans and finance lease payables will be repaid in accordance with the maturity dates as set out in the respective agreements. This evaluation was made considering: the financial position of the Group at the date of approval of the financial statements; the Group's compliance with the loan covenants; the lack of events of default, and the fact that the Group has made all previously scheduled repayments on time. In accordance with the terms of the bank loans and finance lease payables, their maturity terms at 31 December 2018 are HK$1,051,479,000 in 2019, HK$619,000,000 in 2020, HK$342,141,000 in 2021, and HK$179,000 in 2022 (2017: HK$697,613,000 in 2018, HK$309,800,000 in 2019, HK$542,934,000 in 2020, HK$257,822,000 in 2021, and HK$179,000 in 2022).

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt comprises all interest-bearing bank borrowings, an amount due to an associate, accounts and bills payables, and accrued liabilities and other payables less cash and cash equivalents. The total equity comprises ordinary equity holders' equity as stated in the consolidated statement of financial position.

The Group's strategy is to maintain the gearing ratio at a healthy capital level in order to support its business. The gearing ratios of the Group as at the end of the reporting periods were as follows:

	2018 HK$'000	2017 HK$'000
Interest-bearing bank borrowings	2,003,594	1,794,814
Accounts and bills payables	781,794	660,460
Accrued liabilities and other payables	228,155	195,825
Due to an associate	1,926	2,706
Less: Cash and cash equivalents	(558,249)	(421,723)
Net debt	2,457,220	2,232,082
Equity attributable to ordinary equity holders of the Company and total capital	1,941,483	2,050,158
Capital and net debt	4,398,703	4,282,240
Gearing ratio	55.9%	52.1%

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Interests in subsidiaries	**402,207**	402,207
CURRENT ASSETS		
Prepayments	**–**	67
Due from a subsidiary	**596,880**	610,982
Cash and cash equivalents	**4,191**	4,164
Total current assets	**601,071**	615,213
CURRENT LIABILITIES		
Accrued liabilities and other payables	**86**	72
NET CURRENT ASSETS	**600,985**	615,141
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,003,192**	1,017,348
Net assets	**1,003,192**	1,017,348
EQUITY		
Issued capital	**86,992**	86,992
Reserves (Note)	**916,200**	930,356
Total equity	**1,003,192**	1,017,348

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

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

	Share premium account HK$'000	**Capital reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 January 2017	446,105	402,007	96,096	944,208
Final 2016 dividend declared and paid	–	–	(13,049)	(13,049)
Loss and total comprehensive expenses for the year	–	–	(803)	(803)
At 31 December 2017 and 1 January 2018	446,105	402,007	82,244	930,356
Final 2017 dividend declared and paid	–	–	(13,049)	(13,049)
Loss and total comprehensive expenses for the year	–	–	(1,107)	(1,107)
At 31 December 2018	446,105	402,007	68,088	916,200

The capital reserve of the Company represents the excess of the then net assets of the subsidiaries acquired by the Company pursuant to the Group Reorganisation as disclosed in the annual report of the Company for the year ended 31 December 2004, over the nominal value of the share capital of the Company issued in exchange therefor and the then existing 1,000,000 shares of HK$0.1 each credited as fully paid at par. Under the Companies Law of the Cayman Islands, the capital reserve may be distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name	**Place of incorporation/ registration and operations**	**Issued ordinary share/ paid-up capital**	**Percentage of equity attributable to the Company** 2018	2017	**Principal activities**
Directly held:					
Joint Result*	BVI/ Hong Kong	US$10,000	100	100	Investment holding
Indirectly held:					
Highkeen Enterprises Limited*	BVI/ Hong Kong	US$1,000	100	100	Investment holding

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company 2018	2017	Principal activities
Indirectly held: (continued)					
Kam Hing Textile (International) Limited ("KH Textile")	Hong Kong	Ordinary HK$2 Non-voting deferred HK$10,000,000 (Note (a))	**100**	100	Investment holding
En Ping Kam Hing Textile and Dyeing Co. Ltd. ("En Ping KH")*	PRC/ Mainland China	US$75,878,000 (Note (b))	**100**	100	Manufacture and trading of knitted and dyed fabrics
En Ping Kam Lap Textile and Dyeing Co. Ltd. ("En Ping KL")*	PRC/ Mainland China	US$20,000,000 (Note (c))	**77**	77	Manufacture and trading of knitted and dyed fabrics
Guangzhou Kam Sing Textile and Dyeing Co. Ltd. ("Kam Sing")*	PRC/ Mainland China	HK$56,000,000 (2017: HK$6,000,000) (Note (d))	**100**	100	Manufacture and trading of knitted and dyed fabrics
Guangzhou Kamhing Textile Dyeing Co., Ltd. ("Guangzhou KH")*	PRC/ Mainland China	US$166,371,000 (Note (e))	**100**	100	Manufacture and trading of knitted and dyed fabrics
Sparkle Logistics Limited*	Hong Kong	HK$3,800,000	**92**	92	Provision of air and ocean freight services
Kam Hing Textile Macao Commercial Offshore Company Limited	Macau	Pataca 100,000	**100**	100	Sourcing agent and trading of yarns and dyeing materials
Kam Hing Piece Works Limited ("KH Piece Works")	Hong Kong	Ordinary HK$2 Non-voting deferred HK$1,000,010 (Note (a))	**100**	100	Trading of finished fabrics

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			2018	2017	
Indirectly held: (continued)					
Json Garment Company Limited ("Json") (Note (f))	Hong Kong	HK$10,000,000	80	80	Trading of garment products
錦興(中國)企業管理有限公司 ("KH China")*	PRC/ Mainland China	US$16,100,000 (2017: US$2,000,000) (Note (g))	100	100	Property holding and provision of corporate management, sales planning and consultancy services
Lunar Dragon Holdings Limited*	Hong Kong	HK$1	100	100	Property holding
Sewage Treatment Company*	PRC/ Mainland China	RMB200,000	100	100	Provision of sewage treatment service
Jade Sun Garment (Cambodia) Co., Ltd. ("Jade Sun")* (Note (h))	Kingdom of Cambodia	US$1,200,000	80	80	Manufacture and trading of garment products
JH Garment (Cambodia) Co., Ltd. ("JH Garment")* (Note (j))	Kingdom of Cambodia	–	80	–	Manufacture and trading of garment products
廣東錦恒置業有限公司 ("Kam Hang")* (Note (k))	PRC/ Mainland China	RMB78,043,000	100	–	Property development
Great Market Global Viet Nam Co., Ltd. ("GMG Viet Nam") (Note (l))	Vietnam	US$5,440,000	100	–	Manufacture and trading of garment products

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Notes:

(a) The non-voting deferred shares do not entitle the holders thereof to receive notice of or to attend or vote at any general meeting of KH Textile and KH Piece Works. The holders of the non-voting deferred shares are not entitled to any dividends of KH Textile and KH Piece Works. On a winding-up, the holders of the non-voting deferred shares are entitled, out of the surplus assets of KH Textile and KH Piece Works, to a return of the capital paid up on the non-voting deferred shares held by them to one half of the balance after a total sum of HK$100,000,000,000,000 has been distributed in such winding-up in respect of the ordinary shares of KH Textile and KH Piece Works.

(b) En Ping KH is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 27 April 2005. The registered capital of En Ping KH amounted to US$85,000,000, of which US$75,878,000 (2017: US$75,878,000) was paid up as at 31 December 2018. The remaining unpaid capital contribution of US$9,122,000 (2017: US$9,122,000) (equivalent to approximately HK$71,152,000 (2017: HK$71,152,000)) was included in commitments at 31 December 2018 as disclosed in note 33 to the financial statements.

(c) En Ping KL is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 8 June 2007.

(d) Kam Sing is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 2 January 2004. During the year, the registered capital of Kam Sing increased from HK$6,000,000 to HK$56,000,000, which was fully paid up as at 31 December 2018.

(e) Guangzhou KH is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 25 years commencing from 26 March 1992 and extended to 16 March 2027 during the year ended 31 December 2017. The registered capital of Guangzhou KH amounted to US$192,610,000, of which US$166,371,000 (2017: US$166,371,000) was paid up as at 31 December 2018. The remaining unpaid capital contribution of US$26,239,000 (2017: US$26,239,000) (equivalent to approximately HK$204,664,000 (2017: HK$204,664,000)) was included in commitments at 31 December 2018 as disclosed in note 33 to the financial statements.

(f) During the year ended 31 December 2017, the Group disposed of 20% equity interest in Json to independent third parties at a consideration of HK$2,325,000. The change in equity interest in Json during the year ended 31 December 2017 resulted in a decrease in other reserve of HK$33,000 and an increase in non-controlling interests of HK$2,358,000 in the consolidated statement of changes in equity during the year ended 31 December 2017.

(g) KH China is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 9 October 2013. During the year, the registered capital of KH China increased from US$10,000,000 to US$22,000,000, of which US$16,100,000 (2017: US$2,000,000) was paid up as at 31 December 2018. The remaining unpaid capital contribution of US$5,900,000 (2017: US$8,000,000) (equivalent to approximately HK$46,020,000 (2017: HK$62,400,000)) was included in commitments at 31 December 2018 as disclosed in note 33 to the financial statements.

(h) During the year ended 31 December 2017, the Group established Jade Sun in the Kingdom of Cambodia. Jade Sun is principally engaged in the manufacture and trading of garment products. The registered capital of Jade Sun amounted to US$1,200,000, which was fully paid up as at 31 December 2018.

(i) During the years ended 31 December 2017 and 2018, the Group deregistered certain dormant subsidiaries. HK$356,000 (2017: HK$1,740,000) of exchange fluctuation reserve was credited (2017: debited) to the income statement upon the deregistration of the subsidiaries.

(j) During the year, the Group established JH Garment in the Kingdom of Cambodia. JH Garment is principally engaged in the manufacture and trading of garment products. The registered capital of JH Garment amounted to US$1,500,000, of which nil amount was paid up as at 31 December 2018. The unpaid capital contribution of US$1,500,000 (2017: Nil) (equivalent to approximately HK$11,700,000 (2017: Nil)) was included in commitments at 31 December 2018 as disclosed in note 33 to the financial statements.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Notes: (continued)

(k) During the year, the Group established Kam Hang in Mainland China. Kam Hang is principally engaged in property development. Kam Hang is registered as a wholly-foreign-owned enterprise under the PRC law with an operating period of 20 years commencing from 24 January 2018. During the year, the registered capital of Kam Hang increased from RMB50,000,000 to RMB100,000,000, of which RMB78,043,000 was paid up as at 31 December 2018. The remaining unpaid capital contribution of RMB21,957,000 (2017: Nil) (equivalent to approximately HK$24,951,000 (2017: Nil)) was included in commitments at 31 December 2018 as disclosed in note 33 to the financial statements.

(l) During the year, the Group established GMG Viet Nam in Vietnam. GMG Viet Nam is principally engaged in the manufacture and trading of garment products. The registered capital of GMG Viet Nam amounted to US$33,000,000, of which US$5,440,000 was paid up as at 31 December 2018. The remaining unpaid capital contribution of US$27,560,000 (2017: Nil) (equivalent to approximately HK$214,968,000 (2017: Nil)) was included in commitments at 31 December 2018 as disclosed in note 33 to the financial statements. Subsequent to the end of the reporting period, the registered capital of GMG Viet Nam decreased from US$33,000,000 to US$5,440,000.

* The statutory financial statements of these subsidiaries are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

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

41. COMPARATIVE AMOUNTS

Certain comparative amounts on the face of the consolidated statement of profit or loss and notes to the financial statements have been reclassified to conform with the current year's presentation. In the opinion of the directors, this presentation would better reflect the financial performance of the Group.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2019.

FIVE-YEAR FINANCIAL SUMMARY

31 December 2018

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

RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**4,650,958**	4,192,896	3,662,622	4,152,733	3,985,699
Profit before tax	**87,098**	86,161	84,122	85,625	106,772
Income tax expense	**(16,804)**	(23,247)	(10,520)	(24,510)	(24,255)
Profit for the year	**70,294**	62,914	73,602	61,115	82,517
Attributable to:					
Ordinary equity holders of the Company	**72,826**	64,575	74,995	58,256	81,055
Non-controlling interests	**(2,532)**	(1,661)	(1,393)	2,859	1,462
	70,294	62,914	73,602	61,115	82,517

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**4,969,097**	4,736,341	4,387,165	4,704,382	4,667,254
TOTAL LIABILITIES	**(3,030,241)**	(2,684,451)	(2,568,095)	(2,679,678)	(2,593,558)
NON-CONTROLLING INTERESTS	**2,627**	(1,732)	984	(33,214)	(47,658)
	1,941,483	2,050,158	1,820,054	1,991,490	2,026,038