High Fashion International Limited

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

2018

ANNUAL REPORT


CONTENTS

CHAIRMAN'S STATEMENT

During 2018, the market was affected by escalated trade tensions between the United States and China, the Brexit, as well as exchange fluctuations, leading to a global slowdown in market growth. However, turnover was not impacted as a result of the economic uncertainties attributable to our long established steadily growth strategies and excellent global customer relationships. We will continue to be vigilant and at the same time strengthen our efficiency and competitiveness in order to meet any future challenges and market opportunities.

Our key results for the period ended 31st December 2018 are as follow:–

- Net profit attributable to shareholders at HK$43.6 million
- Gearing ratio of non-current liabilities to shareholders' fund at 38%. Current ratio at 1.5
- Basic earnings per share landed at HK$0.14
- Net asset value per share amounted to HK$8.16
- Proposed final dividend per share is HK$0.03 and the total dividend for the year will be HK$0.06

Whilst the Group has always been well positioned as the world's top Silk enterprise, the escalated silk yarn price in the past few years has significantly disrupted the relatively higher end consumer market, thus narrowing our market expansion opportunities. To cope with this challenge, we have optimized our strategies and has been deploying resources to develop as a strong affordable-luxury fashion manufacturer with sound competitive advantages in the market. Through active re-engineering processes, we are

Chairman's Statement

improving our production efficiency in order to achieve pricing advantage and respond more quickly and directly to customers' ever-changing demands with lean inventory. We believe there are more rooms for our business growth in this direction, together with our established advantage in silk business. We are convinced that High Fashion Group is in the path to develop more strongly and be able to expand steadily. We have full confidence, determination and expectation to meet all the future challenges.

For our brand business, it is still in the midst of fierce market competition especially in the US which recorded losses during the year. The Group will continue to take efforts in tightening the costs and streamlining its operations to reduce loss.

The Group possesses an excellent quality of property portfolio. Over the past few years, we have optimized the values as inherited from these properties. Among the various property projects, High Fashion Centre, where our headquarter located in Hong Kong is under renovation to become a high class commercial building. The project is expected to be completed toward the end of 2019 and will contribute to the Group's revenue. The projects in Tong Lu are under development in accordance with schedules. The property in Xiao Shan is under an in-depth review for its future development. We believe it will bring sustainable development opportunities and commercial benefits to the Group in the long run.

Although there are still much uncertainties and volatility in the market including the impact from Sino-US trade disputes, we are confident that we will maintain our sustainable growth in the years to come.

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

LAM FOO WAH
Chairman & Managing Director

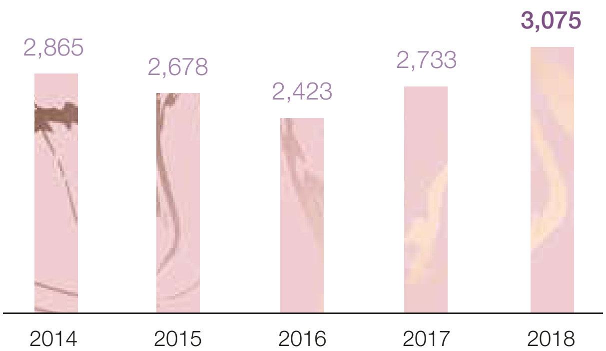
Hong Kong, 29 March 2019


Strive to be World's
Number 1 Silk
Enterprise

FINANCIAL HIGHLIGHTS

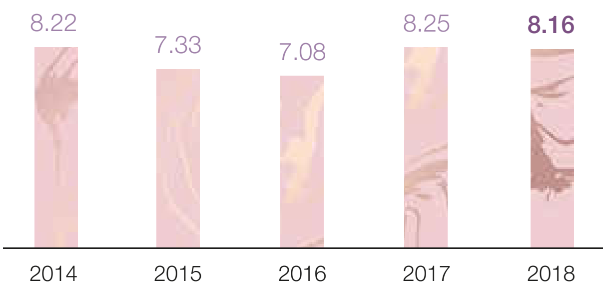
Turnover

(HK$ Million)



Net Asset Value Per Share

(HK$)



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

China's economic deceleration, which started in Q2 2018, became more apparent in Q4. According to the National Bureau of Statistics, China's year-on-year GDP growth reached 6.6% in 2018 (2017: 6.8%), China's economy grew at its slowest pace in 28 years in 2018. During the year of 2018, the market development was largely impacted by the Sino-US trade tensions and the deleveraging policy in China. However the economy slowdown was not cushioned till the end of year. On the other hand, the global market was also weakened as a result of the sluggish global economic fundamentals, trade protectionism and exchange fluctuations.

Though China is experiencing a slowdown alongside rising costs, our country remains the world's largest apparel exporter. Furthermore, the quality of works and skill sets in garment manufacturing are having comparative preference over the other Asian countries in general particularly from the perspective of brand customers at middle to high end markets.

Customers' attention is also tuned to new channels. Consumers are becoming less brand loyal and are switching their perception of clothing to that which are easily accessible and fresh, with values orientation at lower prices. In response, leading fashion players are offering innovative business models to differentiate their products along with shorter go-to-market times. At the same time, the rapid technology advance has profound impact on consumer behaviors to purchase from cross-border e-commerce, which in return drive up competition in the fashion industry on a global scale.

Management Discussion and Analysis

BUSINESS REVIEW (Cont'd)

In the year of 2018, manufacturing and trading operation continued to be the core business of High Fashion International Limited (the "Company", together with its subsidiaries, collectively the "Group"). To confront the current business challenges, the Group focuses more resources in product development as well as adopting a series of measures including the implementation of SAP and ERP systems aiming at enhancing manufacturing efficiencies, improving productivity transparency through utilization of big data analytics and driving down production costs in order to be more competitive in the market.

In 2018, the Group has recorded an increase of revenues in trading and manufacturing segment as compared to 2017 attributable to stably growth of customer base together with increased orders from the well-established global customers. While we will continue to leverage our competitive edge in the silk business, we addressed the headwind by investing good amount of resources to steer our transformation to the fast fashion supply chain paradigm characterized for quicker turnaround time and leaner inventory that we believe our focus on aligning our core competence will emerge as winner in the fast changing apparel market.

FINANCIAL REVIEW

Revenue of the Group increased by HK$0.3 billion to HK$3 billion for the year ended 31 December 2018, with a growth rate of 12.5%. Gross profit increased by HK$33.2 million to HK$558 million in 2018 with a growth rate of 6.3% though gross margin fell to 18.2% versus 19.2% in 2017. The decline of gross profit margin was mainly due to increases in cost of sales under the HKD denominated ledger as a result of CNY appreciation against HKD in average during the year.

Management Discussion and Analysis

FINANCIAL REVIEW (Cont'd)

At expenses side, administrative expenses were increased by 6% whilst selling and distribution expenses were increased by 6% comparing with that of last year. The increases in expenses were partly attributable to the appreciation of CNY against HKD during the year. These operating expenses are under close monitoring aiming at achieving the best fit cost structure and process flows to support the continuous development of the business. Other expenses included professional & consultancy fees on various projects as well as one-off expenses totaled HK$14.8 million (2017: HK$18.1 million).

Profit for the year of 2018 included fair value gain from investment properties amounted to HK$55.2 million (2017: HK$170.7 million). On the other hand, there has been a loss on derivative financial instruments of HK$43.4 million (2017: loss of HK$95.6 million including realisation of cash flow hedges). Net gain on non-operating items for the year 2018 of total HK$42.1 million represents a reduction of HK$56.7 million as compared with that of last year.

Net profit attributable to shareholders for the year ended 31 December 2018 was HK$43.6 million, an improvement by 4% compared to profit of HK$42 million in 2017. Basic earnings per share were HK$0.143 (2017: HK$0.137) and net asset value per share slightly decreased to HK$8.16 (2017: HK$8.25).

Management Discussion and Analysis

SEGMENT INFORMATION

	Revenue		Contribution	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
By principal activities:				
Manufacturing and trading	**2,854,997**	2,492,109	**79,297**	30,233
Brand business	**135,567**	175,663	**(43,465)**	(28,012)
Property investment and development	**84,181**	65,202	**15,632**	24,313
	3,074,745	2,732,974	**51,464**	26,534
By geographical segments:				
USA	**1,061,319**	951,845	**15,963**	7,065
Europe	**475,194**	485,785	**14,710**	5,805
Greater China	**1,219,348**	951,314	**13,211**	10,363
Others	**318,884**	344,030	**7,580**	3,301
	3,074,745	2,732,974	**51,464**	26,534

Note: Included in 2017 segment profit from manufacturing and trading segment is HK$21,782,000 loss on realization of cash flow hedges reclassified from other comprehensive income.

Manufacturing and trading

The manufacturing and trading business contributed primarily to the results of the Group. Segment sales continued to deliver solid year-on-year increase. We are convinced of the ample unlocked opportunities in our promising portfolio of quality business we have established and strategized for long which will support the future growth of the Group.

To advance our long term growth strategy, we are committed to continue to strengthen our engagement with global customers/partners through technological advancement in product innovation, speed to market strategies and digitized technology on manufacturing operation to make ourselves even leaner and more agile with inclusive solutions to consistently deliver the expectations to our customers that will take our business to the next stage of success.

SEGMENT INFORMATION (Cont'd)

Manufacturing and trading (Cont'd)

For the year ended 31 December 2018, revenue from manufacturing and trading business recorded an increase of HK$362.9 million or 14.6% to HK$2.85 billion (2017: HK$2.49 billion). The increase in revenue was mainly attributable to the increase in orders from our long established customers and new international brand customers mainly in the US and European markets. Apparel in synthetic fabrics and silk continued to be the major products of the Group, which contributed a significant portion of the total revenue of manufacturing and trading business. Segment profit of 2018 was HK$79.3 million (2017: HK$30 million). Taking out the impact of loss on realization of cash flow hedges included in last year segment project, result in 2018 represented an encouraging growth of 52.5% as a result of the increase in sales revenue from apparel trading and manufacturing. Segment profit margin taking out the impact of loss on realisation of cash flow hedges has been improved to 2.8% in the year 2018 against 2.1% in 2017.

Brand business

Brand business continues to be affected by the tough market competition as well as challenges due to changes in customer buying pattern of switching to fast fashion and substantially increase in online shopping. As a result, the performance from our brand operations were impacted negatively especially in the USA market with down-trading from the department stores. The Group has responded by restructuring the operation structure, trimming down the operating costs, and to improve the efficiency and market response time.

Revenue from brand business in 2018 decreased by HK$40.1 million, or 22.8% to HK$135.6 million (2017: HK$175.7 million). Segment loss of brand business in the year ended of 31 December 2018 resulted in HK$43.5 million (2017: HK$28.0 million). Nevertheless, with the decisive efforts in restructuring the operations, the decline in segment results was narrowed in the second half of 2018. The Group will continue to focus efforts on optimizing the costs in order to further close the gap in operating loss and turn around the business into profitable operation.

Property investment and development

In order to utilize the Group resources more effectively and to generate stable cash flow to support the core trading and manufacturing business, the Group has been investing in recent years various property development and management projects. The Group's quality portfolio of property projects in the Mainland China and Hong Kong at different stages of investment and development continued to create value to the Group for the year in 2018 and will serve as additional growth drivers for the Group, with progressive value realization to enhance long-term shareholders' value. The property development projects in Zhejiang Province are in good progress, and the properties in Shenzhen are generating rental income during the year. The investment property in Hong Kong has been revitalizing since 2018, therefore, there was no segment revenue delivered from Hong Kong in 2018.

For the year ended 31 December 2018, revenue from property investment and development business increased by HK$19.0 million from HK$65.2 million in 2017 to HK$84.2 million in 2018. The increase in revenue for the year was mainly attributable to higher sales proceeds and leasing income from properties in Zhejiang Province. We expect the property business will continue to grow with increased contribution to the Group.

Management Discussion and Analysis

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY

As a responsible corporation, the Group always put priority on environmental and social standards to ensure sustainable development of its business. In September 2018, the Group became the pioneer silk company to obtain both the Sustainable Textile Production (STeP) and MADE IN GREEN certifications, by an international authoritative textile and leather ecology association (OEKO-TEX®). These certificates proven our products are made from material free of harmful substances and have been manufactured under environmentally friendly processes, good social responsibility and healthy employee working conditions.

The Group has complied with all relevant laws and regulations in relation to its business, including health and safety, workplace conditions, employment and the environment. The Group understands a better future depends on everyone's participation and contribution. Thus, the Group encourages employees, customers, suppliers and other stakeholders to participate in environmental and social activities which benefit the community as a whole.

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

LIQUIDITY AND FINANCIAL RESOURCES

The Group's total outstanding bank borrowings were at same level of HK$1.4 billion at the end of both years of 2018 & 2017 yet the amount of cash and cash equivalents has managed to increase for the period. The bank borrowings were mainly to fund the development and upgrade of China manufacturing plants. Our gearing ratio of non-current liabilities to shareholders' funds was 38% at the end of the reporting period. Current ratio was at a robust level of 1.5.

The Group's total structured deposits, short-term bank deposits and cash and bank balances were HK$983.1 million at the end of reporting period comparing to HK$993.5 million as at 31 December 2017. Complied with the available banking facilities, the Group had a healthy working capital and liquidity to meet the operating needs and future growth.

The Group's trade receivables were mainly denominated in US dollar. Bank borrowings were denominated in US dollar and Hong Kong dollar. Since the Hong Kong dollar is pegged to the US dollar, the Group considers that its foreign exchange risk in this aspect is minimal. The Group has taken conservative approach to handle foreign currency risk with adequate hedging reserve.

Barring the pledge of trade and bill receivables of certain subsidiaries of HK$12.3 million (2017: HK$19.2 million), and the pledge of certain properties in Hong Kong of HK$855.2 million (2017: HK$nil), there were no charges on the Group's assets.

CAPITAL EXPENDITURE

The Group has purchased the plant and equipment, leasehold improvement and construction in progress of around HK$37.7 million in order to upgrade its manufacturing capabilities and improve the environmental protection system during the year. The Group also input HK$108.1 million into certain properties construction and development projects during the period.

Management Discussion and Analysis

CAPITAL COMMITMENTS

As at 31 December 2018, the Group is committed to capital expenditure in respect of acquisition of property, plant and equipment and construction work contracted but not provided for amounted to HK$235.7 million.

CONTINGENT LIABILITIES

Please refer to note 50 to the consolidated financial statements for details of contingent liabilities at 31 December 2018.

TAX AUDIT

Since February 2006, the Hong Kong Inland Revenue Department (the "IRD") has initiated a tax audit on certain group companies for the years of assessment as from 1999/2000. The Group has been pro-actively liaising with the IRD, but the outcome of the tax audit cannot be readily ascertained with reasonable accuracy. Based on the latest discussions with the IRD, the directors of the Group are of the opinion that, in all the years, adequate tax provision was made for the Hong Kong chargeable income.

HUMAN RESOURCES

The total number of employees of the Group including joint ventures as at the end of the period was about 6,200. Other than the competitive remuneration package offered to the employees, share options may also be granted to selected employees based on the Group's performance. On 3 December 2018, share options were granted to certain directors in respect of their services to the Group under the share option scheme of the Company.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. LAM Foo Wah, aged 70, is the founder of the Group. Mr. Lam is the Chairman and the Managing Director, and the chairman of the Nomination Committee of the Company. He is also a director of various subsidiaries of the Company. Mr. Lam is the visionary leader and is responsible for the overall strategic planning with goals setting for the Group to pursue aggressively. He has over 40 years of experience in manufacturing of apparel industry and marketing of brand and retail management. Mr. Lam is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance. He is the father of Mr. Lam Gee Yu, Will and Mr. Lam Din Yu, Well, the Executive Directors of the Company.

Ms. SO Siu Hang, Patricia, aged 60, joined the Group in 1990. Ms. So is an Executive Director and a director of various subsidiaries of the Company. She is responsible for the Group's global business development, strategic planning and implementation. She has an in-depth knowledge of the fashion apparel industry, has substantial valuable experience in value chain management and e-commerce sales and marketing. She holds a bachelor degree in commerce and finance from the University of Toronto and a master degree in business administration from York University in Canada. Prior to joining the Group, she worked for Standard Chartered Bank for 4 years.

Mr. LAM Gee Yu, Will, aged 36, joined the Group in 2010. Mr. Will Lam is an Executive Director, a member of the Remuneration Committee and Risk Management Committee of the Company. He is also a director of various subsidiaries of the Company. Mr. Will Lam serves as a vice president of Shenzhen Garment Industry Association, a vice president of Hong Kong Hangzhou Entrepreneurs Association, a member of The Hong Kong Real Property Federation Limited, a member of retail and tourism committee of Hong Kong General Chamber of Commerce, a member of The Chinese Manufacturers' Association of Hong Kong, a member of The Hong Kong Institute of Directors, a member of The Federation of Hong Kong Garment Manufacturers and a member of Hong Kong 3D Printing Association. He holds a Bachelor of Science Degree from The Chinese University of Hong Kong and a Master of Finance Degree from Princeton University. Prior to joining the Group, he worked for an international bank in Asia and an international investment bank in United States. He is a son of Mr. Lam Foo Wah and a brother of Mr. Lam Din Yu, Well, the Executive Directors of the Company.

Mr. LAM Din Yu, Well, aged 34, joined the Group in 2006. Mr. Well Lam is an Executive Director and is a director of various subsidiaries of the Company. He is responsible for the group business in the Mainland China, as well as the new business development area. He is also the principal member of China Silk Association, Zhejiang Silk Association, Zhejiang New High-Tech Enterprises Association, Hangzhou Silk Association, Federation of Industry and Commerce of Xiaoshan Hangzhou, and International Silk Union. He holds a bachelor degree of Business Administration from Boston University. He is a son of Mr. Lam Foo Wah and a brother of Mr. Lam Gee Yu, Will, the Executive Directors of the Company.

Biographical Details of Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Professor YEUNG Kwok Wing, aged 71, joined the Group in 2000. Professor Yeung is a Non-executive Director, a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. He is currently the executive director of Clothing Industry Training Authority ("CITA") in Hong Kong. He holds a PhD from the Queen's University of Belfast, Northern Ireland. Professor Yeung specializes in textile product development, quality assurance and management and serves as various honorary fellows and members of international associations of textile, dyers and colorists as well. He has a long and distinguished academic career and was associated with The Hong Kong Polytechnic University ("PolyU") for more than 30 years before joining CITA in June 2006. His administrative ability is also highly appreciated in PolyU when he was posted as its vice president overseeing academic development from 2002 to 2005.

Mr. HUNG Ka Hai, Clement, aged 63, joined the Group in 2017. Mr. Hung is a Non-executive Director and a member of the Audit Committee of the Company. He had served Deloitte China for 31 years. He retired from the chairman role of Deloitte China in June 2016 and had represented Deloitte China in the Deloitte Global Board and Governance Committee as a member during at that time. Mr. Hung assumed various leadership roles in Deloitte, namely he was the audit group leader and office managing partner of Deloitte Shenzhen Office and Guangzhou Office. He was also a member of the China Management Team of Deloitte China. Later on, Mr. Hung assumed the role of the southern audit leader and the deputy managing partner of the Southern Region (including the regions of Hong Kong, Macau, Shenzhen, Guangzhou, Xiamen and Changsha).

Mr. Hung is an honorary member of the Shenzhen Institute of Certified Public Accountants in 2004. He served as the Guangzhou Institute of Chartered Accountants consultant from 2004 to 2014. From 2006 to 2011, he also served as a member of the Political Consultative Committee of Luohu District, Shenzhen. In June 2016, the Ministry of Finance of People's Republic of China appointed Mr. Hung as an expert Consultant under his extensive experience as a Hong Kong accounting professionals.

Mr. Hung is an independent non-executive director of Gome Finance Technology Co., Ltd., Sheng Ye Capital Limited, Zhongchang International Holdings Group Limited (formerly known as "Henry Group Holdings Limited") and has been appointed as an independent non-executive director of Aoyuan Healthy Life Group Company Limited in February 2019, shares of these companies are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He has served as an independent non-executive director of Lerthai Group Limited (formerly known as "LT Commercial Real Estate Limited") until September 2018 and a non-executive director of SMI Holdings Group Limited until February 2019, both companies are listed on the Stock Exchange.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WOO King Wai, aged 74, joined the Group in 1992. Mr. Woo is an Independent Non-executive Director, a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. He holds a bachelor degree in architecture (Honours) from the University of the California, Berkeley. He is a member of the Hong Kong Institute of Architects and the Royal Australian Institute of Architects. He served as an executive member of the Hainan Political Consultative Conference, the People's Republic of China and a member of the University of California Berkeley Foundation Board of Trustees.

Mr. WONG Shiu Hoi, Peter, aged 78, joined the Group in 2004. Mr. Wong is an Independent Non-executive Director, the chairman of the Remuneration Committee and Risk Management Committee, and a member of the Audit Committee and Nomination Committee of the Company. He holds a Master of Business Administration Degree from the University of East Asia, Macau (currently known as the "University of Macau"). Mr. Wong possesses over 45 years of experience in the financial services industry. He is a consultant of Halcyon Holdings Limited and an independent non-executive director of Tianjin Development Holdings Limited, Agile Group Holdings Limited and Target Insurance (Holdings) Limited. He was an executive director, deputy chairman and chief executive of Haitong International Securities Group Limited, the chairman of The Hong Kong Institute of Directors, a director of Hong Kong Securities and Investment Institute and an overseas business advisor of Haitong Securities Company Limited.

Mr. LEUNG Hok Lim, *FCPA (Aust.), CPA (Macau), FCPA (Practising)*, aged 83, joined the Group in 2004. Mr. Leung is an Independent Non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee, Nomination Committee and Risk Management Committee of the Company. Mr. Leung is the founder and senior partner of PKF Hong Kong Limited. Mr. Leung is the independent non-executive director of Phoneix Media Investment (Holdings) Limited (formerly known as "Phoenix Satellite Television Holdings Limited") and S E A Holdings Limited, the companies listed on the Stock Exchange. He has served as an independent non-executive director of Fujian Holdings Limited until January 2019. He was also the independent non-executive director of Yangtzekiang Garment Limited and YGM Trading Limited.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Ms. LEUNG Suk Yin, Hilda, aged 62, has been with the Group since its inception. She is a director of High Fashion Garments Company Limited and the vice chairman of High Fashion (China) Co., Ltd. Ms. Leung holds a diploma in business management from the Hong Kong Polytechnic University and the Hong Kong Management Association. She has over 40 years of experience in the marketing, merchandising and production of garments.

Ms. CHOW Siu Ping, Helen, aged 57, joined the Group in 2000. She is the CEO of Knitwear Centre of High Fashion (China) Co., Ltd. and has extensive experience in the merchandising, product development and production of knitting garments. Before joining the Group, she worked as leading roles for many sizable manufacturing groups and apparel brands.

Mr. RUAN Gen Yao, aged 58, joined the Group in 2001. He is the vice chairman of High Fashion (China) Co., Ltd. He is also a director and the general manager of Zhejiang High Fashion Culture Creativity Co., Ltd. and responsible for the operation of that company. He is a politician engineer in China and Labour Model of Hangzhou and the representation of the People's Congress of Tonglu, China. He has over 25 years' experience in silk finishing and dyeing industry and extensive experience in business management.

Mr. LIN Ping, aged 58, joined the Group in 1993. He is the chairman and the CEO of High Fashion Silk (Zhejiang) Co., Ltd. and responsible for the operation and administration. He serves as vice president of Chinese Textile Enterprisers Association, vice president of China Silk Association, vice president of China Fashion Color Association, vice president of Silk Branch of China Textile Chamber of Commerce, vice president of China Silk Quilt Association, an executive member of China Textile Photography Association, president of Zhejiang Industry Tourism Association, vice president of Zhejiang Textile Association, vice president of Zhejiang Province Silk Association, vice president of Shaoxing Textile Association, vice president of Shaoxing Tourism Association, representative of 6th and 7th NPC of Shaoxing, representative of 13th, 14th and 15th NPC of Xinchang, creative consultant of Donghua University, professor and tutor for master degree of Wuhan Textile University, part-time professor of Zhejiang Sci-Tech University and honorary professor of Hangzhou Vocational Technical College, president of High Fashion Womenswear College. He attains EMBA education and is the senior economist in China. He has over 40 years' experience in textile industry and extensive experience in product design and development, silk weaving production and management.

Ms. HU Ze Lin, aged 68, joined the Group in 1993. She is a director and the deputy general manager of High Fashion Silk (Zhejiang) Co., Ltd. and responsible for the production of that company. She attained matriculated education and is an economist in China. She has over 40 years of experience in textile industry and extensive experience in quality control in silk weaving production management.

Mr. Valentine Dunne, aged 48, joined the Group in 2002. He is the CEO of High Fashion Garments, Inc. and August Silk Inc., and responsible for promotion and development of product in the U.S.A. market. He is a graduate of Colaiste Ide Vocational College in accounting program and holds a bachelor degree in aeronautics from Embry-Riddle Aeronautical University. Before joining the Group, he worked for Dillard's Department Stores and Saks Fifth Ave Inc.

Mr. ZHANG Shan Pu, aged 63, joined the Group in 1999. He is the general manager of Suzhou High Fashion Garments Co., Ltd. and responsible for the operation of that company. He graduated from an institution. Mr. Zhang has over 20 years of experience in silk knitting garments management and extensive experience in business management.

Report of the Directors

The director(s) of the Company (the "Director(s)") present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding, property investment and development. Details of the principal activities of the principal subsidiaries are set out in note 51 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 is provided in the Chairman's Statement, the Management Discussion and Analysis, and Financial Summary on pages 2 to 3, pages 7 to 13 and page 165 respectively of this report. This review forms part of this report of the directors.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2018 and the financial position of the Group at that date are set out in the consolidated financial statements on pages 51 to 164.

An interim dividend of 3 HK cents per ordinary share was paid on 16 October 2018. The board of directors of the Company (the "Board") recommended the payment of a final dividend of 3 HK cents (2017: 3 HK cents) per ordinary share for the year ended 31 December 2018 to shareholders whose names appear on the Register of Members of the Company on Friday, 14 June 2019. The proposed final dividend is subject to the approval of shareholders of the Company at the forthcoming annual general meeting to be held on Thursday, 6 June 2019 ("2019 AGM"). If being approved, dividend warrants for the final dividend is expected to be dispatched on or around Friday, 28 June 2019.

Dividend Policy

The Company adopted the dividend policy on 29 March 2019 to allow shareholders of the Company to participate in its profits whilst preserving adequate reserves and liquidity for the Company's future development.

The Board would consider the following factors before recommendation or declaration of dividends:–

(a) the actual and expected financial performance of the Group;

(b) the working capital requirements for future business needs and expansion plans of the Group;

(c) the liquidity position of the Group;

(d) the retained earnings and distributable reserves of the Group;

(e) general economic conditions and other internal and external factors which may have an impact on the financial and business performance of the Group; and

(f) any other factors that the Board deems relevant.

RESULTS AND DIVIDENDS (Cont'd)

Dividend Policy (Cont'd)

The Board is at its discretion to declare interim dividends. The recommendation of final dividends is subject to the approval of shareholders at general meetings of the Company. The payment of dividends is subject to the restrictions under the Memorandum of Association and Bye-laws of the Company and other applicable laws, rules and regulations. Dividends may be distributed in cash or be satisfied wholly or partly in the form of securities of the Company pursuant to the Bye-laws of the Company.

The Board will review the policy from time to time and has absolute and sole discretion to update, amend or modify the Policy.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Tuesday, 4 June 2019 to Thursday, 6 June 2019, both days inclusive, during which period no transfer of shares will be registered. In order to determine shareholders who are entitled to attend and vote at the 2019 AGM, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by not later than 4:30 p.m. on Monday, 3 June 2019.

In addition, the Register of Members will also be closed from Thursday, 13 June 2019 to Friday, 14 June 2019, both days inclusive, during which period no transfer of shares will be registered. In order to determine shareholders who are entitled to qualify for the proposed final dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by not later than 4:30 p.m. on Wednesday, 12 June 2019.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements and reclassified as appropriate, is set out on page 165 of this report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

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

PROPERTIES

Details of the properties of the Group held for investment and sale purposes at 31 December 2018 are set out in the section headed "Schedule of Principal Investment Properties" on page 166 of this report.

RESERVES

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

Report of the Directors

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution as at 31 December 2018 amounted to HK$120,514,000 (2017: HK$111,197,000).

DONATIONS

During the year, the Group made charitable and other donations of approximately HK$3,036,700 (2017: HK$260,000).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, less than 28% of the Group's revenue from sales of goods or rendering of services was attributable to the Group's five largest customers, and less than 30% of the Group's total purchases were attributable to the Group's five largest suppliers.

DIRECTORS

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

Executive Directors:

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

Non-executive Directors:

Professor Yeung Kwok Wing
Mr. Hung Ka Hai, Clement

Independent Non-executive Directors:

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

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. Wong Shiu Hoi, Peter, Mr. Leung Hok Lim and Mr. Woo King Wai will retire from office and be eligible for re-election at the 2019 AGM. Save and except for Mr. Woo King Wai, who has indicated that he will not stand for re-election and will retire at the 2019 AGM, the remaining retiring Directors, being eligible, have offered themselves for re-election at the 2019 AGM.

Pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, each Independent Non-executive Director re-affirmed his independent status with the Company as at 31 December 2018, and the Company considered that they are independent.

Report of the Directors

DIRECTORS' EMOLUMENTS

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 14 to 17 of this report.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the 2019 AGM has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, Executive Directors and Non-executive Directors have confirmed that they have no interests in any business apart from the Company's business, which competes or is likely to compete, either directly or indirectly, with the Company's business which is required to be disclosed pursuant to the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS

No Director or any entity connected with him had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party during the year or at the end of the year.

CONTROLLING SHAREHOLDER'S INTERESTS IN SIGNIFICANT CONTRACTS

At no time during the year had the Company or any of its subsidiaries, and the controlling shareholder or any of its subsidiaries entered into any contracts of significance for the provision of services by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

PERMITTED INDEMNITY PROVISION

In accordance with the Bye-laws of the Company, the Directors and officers of the Company, shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he may sustain or incur in or about the execution of their duty, provided that this indemnity shall not extend to any matter in respect of wilful negligence, wilful default, fraud or dishonesty which may attach to any of said persons.

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

Report of the Directors

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

As at 31 December 2018, the interests and short positions of the Directors, chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) or have been recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, were as follows:

(i) Long positions in the shares and underlying shares of the Company

(a) Ordinary shares of the Company

Name of Directors	*Notes*	Capacity	Nature of interests	Number of ordinary shares held	Percentage of the Company's issued share capital *(Note 3)*
Lam Foo Wah		Beneficial owner	Personal	1,789,901	0.59%
	1, 2	Other interest	Other	197,863,460	64.74%
So Siu Hang, Patricia		Beneficial owner	Personal	2,963,207	0.97%

(b) Share options granted by the Company

Name of Directors	Capacity	Number of underlying shares held pursuant to share options	Percentage of the Company's issued share capital *(Note 3)*
Lam Gee Yu, Will	Beneficial owner	2,500,000	0.82%
Lam Din Yu, Well	Beneficial owner	2,500,000	0.82%

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

(ii) Long Position in Ordinary Shares of Associated Corporation

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

Notes:

1. Mr. Lam Foo Wah is deemed to have interests in 153,537,620 ordinary shares which are beneficially owned by Hinton Company Limited, the entire issued share capital of which is held under The Lam Foo Wah 1992 Trust. Mr. Lam is regarded as a founder of the trust.

2. Mr. Lam Foo Wah is deemed to have interests in 44,325,840 ordinary shares which are beneficially owned by High Fashion Charitable Foundation Limited, the entire issued share capital of which is held under High Fashion Trust. Mr. Lam is regarded as a founder of the trust.

3. The issued share capital of the Company is 305,615,420 shares as at 31 December 2018.

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

5. The issued share capital of High Fashion Knitters Limited is 15,000,000 shares as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, none of the Directors, chief executives of the Company nor their associates had or was deemed to have any interest or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which have been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which have been notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules.

Furthermore, save as disclosed in the "Share Option Scheme" section below, at no time during the year ended 31 December 2018 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the following substantial shareholders, other than Directors and chief executives of the Company, had the interests and short positions in the shares and underlying shares of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, have been recorded in the register kept by the Company pursuant to section 336 of SFO:

Long Positions in the Ordinary Shares of the Company:

Name of Shareholders	*Notes*	Capacity	Number of ordinary shares held	Percentage of the Company's issued share capital *(Note 3)*
Leung Shuk Bing	*1*	Interest of spouse	199,653,361	65.33%
Hinton Company Limited	*2*	Beneficial owner	153,537,620	50.24%
High Fashion Charitable Foundation Limited	*2*	Beneficial owner	44,325,840	14.50%

Notes:

1. Ms. Leung Shuk Bing is spouse of Mr. Lam Foo Wah and is deemed to have interests in 199,653,361 ordinary shares.

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

3. The issued share capital of the Company is 305,615,420 shares as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, no person, other than the directors or chief executives of the Company, whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered a long or short position in the shares, underlying shares and debentures of the Company that was required to be recorded pursuant to section 336 of the SFO.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, is set out in note 39 to the consolidated financial statements.

SHARE OPTION SCHEME

The Company passed a resolution at the annual general meeting to adopt a new share option scheme on 30 May 2012 (the "New Scheme") for a period of 10 years commencing on the adoption date following the expiry of the old share option scheme for the continuation of providing recognition to the contributions or services of employees, executives and Non-executive Directors.

Report of the Directors

SHARE OPTION SCHEME (Cont'd)

The movements in the Company's share options during the year ended 31 December 2018 are disclosed as follows:

				Number of share options				
Name of grantee	Date of grant	Exercise price per share HK$	Exercise period	As at 1 January 2018	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	As at 31 December 2018
Directors								
Lam Gee Yu, Will	3 December 2018	1.76	3 December 2019 to 2 December 2028	–	1,250,000	–	–	1,250,000
			3 December 2020 to 2 December 2028	–	1,250,000	–	–	1,250,000
					2,500,000	–	–	2,500,000
Lam Din Yu, Well	3 December 2018	1.76	3 December 2019 to 2 December 2028	–	1,250,000	–	–	1,250,000
			3 December 2020 to 2 December 2028	–	1,250,000	–	–	1,250,000
					2,500,000	–	–	2,500,000
Total				**-**	**5,000,000**	**-**	**-**	**5,000,000**

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.

2. The closing price of the above share options immediately before the date of grant on 3 December 2018 was HK$1.76.

Save as disclosed above, no share options of the Company were granted, exercised, lapsed or cancelled during the year.

As at the date of this report, the total number of shares options available for issue under the New Scheme is 24,721,355, representing 8.09% of the issued share capital of the Company. Further information of the New Scheme during the year is set out in note 40 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Other than the share option scheme of the Company as disclosed in note 40 to the consolidated financial statements, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

Report of the Directors

PRE-EMPTIVE RIGHTS

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

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

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

RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2018, which do not constitute connected transactions under the Listing Rules are disclosed in note 49 to the consolidated financial statements.

MANAGEMENT CONTRACTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the accounting year ended 31 December 2018, except for the deviations as described below:

Code provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Lam Foo Wah is the Chairman and Managing Director of the Company. The Board considers that the function of the Chairman and the Managing Director in the Company's strategic planning and development process are overlapping and it may not be for the best interests of the Company to have separate individuals occupying these two offices in the condition of the Group and its stage of development.

Report of the Directors

CORPORATE GOVERNANCE (Cont'd)

Code provision A.4.1

Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election.

The current Non-executive Directors and Independent Non-executive Directors were not appointed for a specific term. However, as all Directors are eligible for re-election and subject to retirement by rotation at the annual general meetings of the Company in accordance with Bye-law 87 of the Company's Bye-laws and code provision A.4.2 of the CG Code, the Board considers that sufficient resources have been taken to ensure that the Company's corporate governance practices are no less than exacting than those in the CG Code.

Code provision D.1.4

Under the code provision D.1.4 of the CG Code, directors should clearly understand delegation arrangements in place and listed companies should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.

The Board considers that though there are no formal letters of appointment entered into between the Company and the Directors, the current arrangement has been adopted for years and proved to be effective, more appropriate and flexible for the business operation of the Company. The Directors also have a clear understanding of the terms and conditions of their appointment with close communication with the Company and their awareness on the relevant rights and duties subject to the applicable laws and regulations.

Details of the Company's corporate governance report are set out on pages 28 to 44 of this report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 were audited by Deloitte Touche Tohmatsu.

A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the 2019 AGM.

ON BEHALF OF THE BOARD

LAM FOO WAH
Chairman & Managing Director

Hong Kong, 29 March 2019

Corporate Governance Report

The Board and the management of the Company are committed to establishment and maintaining of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management and enhancing shareholders' value. The corporate governance principles of the Company emphasize a quality Board with responsible decision-making, sound and effective risk management and internal control systems, accountability and transparency to all shareholders with recognition of their legitimate interests.

The Company has complied with all the code provisions of the CG Code as set out in Appendix 14 to the Listing Rules throughout the accounting year ended 31 December 2018, except for the deviations as described below:–

Code provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Lam Foo Wah is the Chairman and Managing Director of the Company. The Board considers that the function of the Chairman and the Managing Director in the Company's strategic planning and development process are overlapping and it may not be for the best interests of the Company to have separate individuals occupying these two offices in the condition of the Group and its stage of development.

Code provision A.4.1

Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election.

The current non-executive directors and independent non-executive directors of the Company were not appointed for a specific term. However, as all directors of the Company are eligible for re-election and subject to retirement by rotation at the annual general meetings of the Company in accordance with Bye-law 87 of the Company's Bye-laws and code provision A.4.2 of the CG Code, the Board considers that sufficient resources have been taken to ensure that the Company's corporate governance practices are no less than exacting than those in the CG Code.

Code provision D.1.4

Under the code provision D.1.4 of the CG Code, directors should clearly understand delegation arrangements in place and companies should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.

The Board considers that though there are no formal letters of appointment entered into between the Company and the directors, the current arrangement has been adopted for years and proved to be effective, more appropriate and flexible for the business operation of the Company. The directors also have a clear understanding of the terms and conditions of their appointment with close communication with the Company and their awareness on the relevant rights and duties, subject to the applicable laws and regulations.

Corporate Governance Report

THE BOARD

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

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

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

Non-executive Directors:
Professor Yeung Kwok Wing
Mr. Hung Ka Hai, Clement

Independent Non-executive Directors:
Mr. Woo King Wai
Mr. Wong Shiu Hoi, Peter
Mr. Leung Hok Lim

The Directors' biographical information is set out on pages 14 to 17 of this report.

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

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

Directors' and Officers' Insurance

Appropriate insurance cover on Directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group. Regular review of the insurance coverage and amount is conducted.

Board Meeting

During the year, four regular Board meetings were held for facilitating the function of the Board. The Chairman of the Board (the "Chairman") met with the Non-executive Directors once without the presence of Executive Directors. In any event, all Directors were available for consultation by management from time to time.

Corporate Governance Report

THE BOARD (Cont'd)

Board Meeting (Cont'd)

In order to ensure that the Board is able to fulfill its responsibilities, it has established and delegated specific responsibilities to the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee. The details of the committees are stipulated on pages 32 to 37 of this report.

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

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

Directors' attendance records

During the year ended 31 December 2018, details of Directors' attendance at the Board and respective Board Committee meetings and the annual general meeting held on 6 June 2018 ("2018 AGM") are as follows:

	Meetings Attended/Held					
Name of Directors	Board	Audit Committee *(Note)*	Remuneration Committee	Nomination Committee	Risk Management Committee	2018 AGM *(Note)*
Executive Directors:						
Mr. Lam Foo Wah	4/4	N/A	N/A	1/1	N/A	1/1
Ms. So Siu Hang, Patricia	4/4	N/A	N/A	N/A	N/A	1/1
Mr. Lam Gee Yu, Will	4/4	N/A	N/A	N/A	2/2	1/1
Mr. Lam Din Yu, Well	3/4	N/A	N/A	N/A	N/A	1/1
Non-executive Directors:						
Professor Yeung Kwok Wing	4/4	1/2	2/2	1/1	N/A	1/1
Mr. Hung Ka Hai, Clement	4/4	N/A	N/A	N/A	N/A	1/1
Independent Non-executive Directors:						
Mr. Woo King Wai	4/4	2/2	2/2	1/1	N/A	1/1
Mr. Wong Shiu Hoi, Peter	4/4	2/2	2/2	1/1	2/2	1/1
Mr. Leung Hok Lim	4/4	2/2	2/2	1/1	2/2	1/1

Note: Representatives of the external auditor participated in every Audit Committee meeting and 2018 AGM.

THE BOARD (Cont'd)

Nomination, Appointment and Re-election of Directors

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

In accordance with Bye-law 87 of the Company's Bye-laws, every director shall be subject to retirement by rotation at least once every three years and that one-third (or the number nearest to one-third) of the directors shall retire from office every year at annual general meeting of the Company and being eligible for re-election. Mr. Woo King Wai, Mr. Wong Shiu Hoi, Peter and Mr. Leung Hok Lim will retire by rotation. Save and except for Mr. Woo King Wai, who has indicated that he will not stand for re-election at the forthcoming annual general meeting of the Company to be held 2019 AGM, the above retiring Directors, being eligible, have offered themselves for re-election at the 2019 AGM. The biographical details of the retiring Directors have been set out in the circular to assist shareholders of the Company for making an informed decision.

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

During the financial year, each of the INEDs has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all INEDs meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent. None of the INEDs holds cross-directorships or has significant links with other Directors through involvement in other companies or bodies.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER (Cont'd)

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

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

BOARD COMMITTEES

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

Each Committee is provided with sufficient resources to perform its duties and where necessary, to seek independent professional advice, at the Company's expense, to perform its responsibility.

Audit Committee

During the year, the Audit Committee comprises Mr. Leung Hok Lim (Chairman), Professor Yeung Kwok Wing, Mr. Woo King Wai and Mr. Wong Shiu Hoi, Peter. Mr. Hung Ka Hai, Clement has been appointed as a member of the Audit Committee on 29 March 2019.

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

BOARD COMMITTEES (Cont'd)

Audit Committee (Cont'd)

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

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

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

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

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

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

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

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

During the year, the Audit Committee held two regular meetings to:

(a) review the annual financial results of the Group for the year ended 31 December 2017 and the interim financial results of the Group for the six months ended 30 June 2018;

(b) review the 2017 Annual Report and 2018 Interim Report of the Company;

(c) review the significant findings and recommendations from the internal audit department and the external auditor of the Company;

(d) review and provide supervision of the Group's financial reporting system;

(e) evaluate the effectiveness of the risk management and internal control procedures; and

(f) review the relationship with the external auditor of the Company and considered their remuneration.

The Audit Committee members' attendance to the meetings is listed out on page 30 of this report.

The Group places high standard and strict compliance of code of conduct as one of the important corporate cultures. The Board adopted the Whistle-Blowing Policy in August 2013 setting out the approach for employees and those who deal with the Company (eg. customers and suppliers) to raise concerns on any possible misconduct, violation of company policies or fraudulent activities, in confidence, with Audit Committee about possible improprieties in any matter related to the Company. All complaints and whistle-blowing are directed to the internal audit department for concurrent investigations. The Company shall present the quarterly whistle-blowing report to the Audit Committee for review, if any.

BOARD COMMITTEES (Cont'd)

Audit Committee (Cont'd)

In March 2019, the Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2018. Minutes drafted by the secretary of Audit Committee are circulated to members of the Audit Committee within a reasonable time after each meeting.

Remuneration Committee

During the year, the Remuneration Committee comprises Mr. Wong Shiu Hoi, Peter (Chairman), Professor Yeung Kwok Wing, Mr. Woo King Wai and Mr. Leung Hok Lim. Mr. Lam Gee Yu, Will has been appointed as a member of the Remuneration Committee on 29 March 2019.

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

(i) to make recommendations to the Board on the Company's policy and structure for remuneration of Directors and senior management;

(ii) to review the specific remuneration packages of all Executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time; and

(iii) to make recommendation to the Board on the remuneration packages of, including benefits in kind, pension rights and compensation payments, of individual Executive Directors and senior management.

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

During the year, the Remuneration Committee met twice to:

(a) review the policy and structure for all Directors' and senior management's remuneration;

(b) review the remuneration packages of Executive Directors and senior management and made relevant recommendations to the Board; and

(c) consider and make relevant recommendations on granting share options to two Executive Directors under the existing share option scheme of the Company.

The Remuneration Committee members' attendance to the meetings is listed out on page 30 of this report.

Particulars of Directors' emoluments and employees' emoluments for the year ended 31 December 2018 are set out in note 9 to the consolidated financial statements.

BOARD COMMITTEES (Cont'd)

Nomination Committee

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

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

(i) to review the structure, size and composition (including the skills, knowledge, experience, expertise and diversity of perspectives) of the Board;

(ii) to make recommendations to the Board on the appointment, re-appointment and succession planning of Directors and senior management, based on merits and having due regard to the benefits of diversity of the Board;

(iii) to assess the independence of INEDs; and

(iv) to conduct regular review on the Board Diversity Policy and make relevant recommendations to the Board for any necessary amendments, if appropriate, to achieve Board diversity.

During the year, the Nomination Committee met once to:

(a) review the structure, size and composition of the Board;

(b) make recommendations in relation to the re-appointment of the retiring Directors at the 2018 AGM;

(c) assess the independence of the INEDs; and

(d) review the Board Diversity Policy.

The Nomination Committee members' attendance to the meeting is listed out on page 30 of this report.

Corporate Governance Report

BOARD COMMITTEES (Cont'd)

Nomination Committee (Cont'd)

Nomination Policy

1. Objectives
   (i) to provide guidance on the appointment, re-appointment and succession planning of Directors; and

   (ii) to determine the size and composition of the Board based on diversity perspectives.

2. Selection Criteria
   The selection of potential candidates is based on the merit and the benefits of diversity on the Board, including but not limited to gender, age, cultural and educational background, professional experience and other qualities. The independence requirements under the Listing Rules would also be considered for the potential candidate as an INED.

3. Nomination Procedures
   3.1 The Nomination Committee identifies and ascertains the integrity, qualification, experience and expertise of the potential candidates or retiring Directors having due regard to the Board Diversity Policy and Nomination Policy as well as the independence of the proposed or retiring Independent Non-executive Directors.

   3.2 The Nomination Committee makes recommendations for the Board consideration.

   3.3 After due consideration, for Board appointment of new director, the Board confirms to appoint the candidate to fill a casual vacancy or as an addition to the Board or recommends the candidates to stand for election at a general meeting; for retiring Directors, the Board recommends the re-election of retiring Directors at the annual general meeting.

4. Review of the Nomination Policy
   The Nomination Committee reviews the Nomination Policy from time to time to ensure its effectiveness. Any necessary amendments will be recommended to the Board for consideration and approval.

Board Diversity Policy

The Board adopted the Board Diversity Policy in March 2013 for setting the approach to achieve diversity of the Board. The Company recognises that increasing diversity at the Board level is an essential element to attain strategic objectives and thus enhance the quality and sustainability of its performance. A number of factors including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge are considered in designing the composition of the Board.

All Non-executive Directors are professionals with extensive experience in garments, accounting and business fields and make major contribution to the strategy planning, risk and management control and future development of the Company. Based on the above factors in designing the composition of the Board, it is considered that the existing Board is characterised by significant diversity.

BOARD COMMITTEES (Cont'd)

Risk Management Committee

During the year, the Risk Management Committee comprises Mr. Wong Shiu Hoi, Peter (Chairman), Mr. Leung Hok Lim, Mr. Lam Gee Yu, Will, Mr. Poon Yiu Ming, George (Group Chief Financial Officer and ceased as a member on 8 June 2018) and Mr. Li Wa Tat, Benedict (Group Finance Director and appointed as a member on 27 November 2018).

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

During the year, the Risk Management Committee met twice to discuss the risk exposure facing the Group in various aspects and the corresponding mitigation measures.

The members' attendance to the Committee meetings is listed out on page 30 of this report. Key risk exposures of the Group identified are set out in the Management Discussion and Analysis on pages 7 to 13 of this report.

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions.

Confirmation has been sought from all Directors and they have complied with the required standard set out in the Model Code for the year ended 31 December 2018.

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

Corporate Governance Report

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

Comprehensive orientation packages on the Group structure, corporate governance practices and policies, directors' rights and duties and updates on applicable laws, rules and regulations are provided for newly appointed Directors.

The Directors acknowledge the need to continue to develop and refresh their knowledge and skills for making contributions to the Company in accordance with code provision A.6.5 of the CG Code.

All Directors have provided a training record to the Company for the year ended 31 December 2018. The participation by every existing Director in the continuous professional development programme with appropriate emphasis on the roles, functions and duties of a director of a listed company in 2018 is recorded in the table below.

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

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

Corporate Governance Report

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

The Directors are responsible for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period in accordance with the applicable laws and regulations. In preparing the accounts for the year ended 31 December 2018, the Directors believe that they have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable, and ensured the financial statements are prepared on a "going concern" basis.

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

A statement by the Auditor of the Company about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 45 to 50 of this report.

External Auditors

The Group has engaged Deloitte Touche Tohmatsu and KPMG to perform audit services and non-audit services for the year ended 31 December 2018. The Group paid or payable to Deloitte Touche Tohmatsu and KPMG in respect of audit services fee of approximately HK$3,781,000 and non-audit services fee (including tax services) of approximately HK$3,339,000 respectively.

Risk Management

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

Review of the Group's risk management covering major operational, financial and compliance controls of different systems has been done on a systematic and on-going basis based on the risk assessments of the operations and controls for the year ended 31 December 2018. The adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions is ensured. No major issue but areas for improvement have been identified during the year. The Board, the Audit Committee and the Risk Management Committee considered that the present risk management controls of the Group are reasonably implemented and effective.

Corporate Governance Report

ACCOUNTABILITY AND AUDIT (Cont'd)

Risk Management (Cont'd)

In addition, up to the date of approval of the Company's 2018 Annual Report based on the respective assessments made by management and also taking into account the results of the audit conducted by the external auditors, the Audit Committee and the Directors considered that:

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

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

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

Internal Control

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board conducts reviews of the effectiveness of the internal control system for the year ended 31 December 2018 covering all material controls, including financial, operational and compliance controls and risk management functions by considering reviews performed by the Risk Management Committee, Audit Committee, executive management and both the Group internal audit department and external auditor. The Group's system of internal control comprises a defined management structure with limits of authority, is designed to help the achievement of business objectives, safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations.

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

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

(i) Organisational Structure

An organisational structure with operating policies and procedures, lines of responsibility and delegated authority has been already established.

(ii) Authority and Control

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

ACCOUNTABILITY AND AUDIT (Cont'd)

Internal Control (Cont'd)

(iii) Budgetary Control and Financial Reporting

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

(iv) Systems and Procedures

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

(v) Internal Audit

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

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

According to the 2018 internal audit reports, the Group's internal control system is functioning effectively and there was no significant weakness found in the course of the audits carried out during the year. The Board, through the Audit Committee and the internal audit function, has reviewed the effectiveness of the Group's internal control system and is of the view that there are no suspected frauds, irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations that cause the Board to believe that the systems are ineffective or inadequate. The Board is satisfied that the Company and the Group have fully complied with the code provisions on internal control as set forth in the CG Code for the year ended 31 December 2018.

Corporate Governance Report

COMPANY SECRETARY

The Company Secretary is a full-time employee of the Company and has day-to-day knowledge of the Company's affairs. All Directors have access to the advice and services of the Company Secretary with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed. For the year ended 31 December 2018, the Company Secretary has complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training.

CONSTITUTIONAL DOCUMENTS

During the year, there was no change in the Company's constitutional documents.

COMMUNICATION WITH SHAREHOLDERS

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

General Meeting

Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf if they are unable to attend the meeting in person. The process of the Company's general meeting will be reviewed from time to time to ensure the compliance with the relevant requirements of the Listing Rules and the relevant legislations.

At 2018 AGM held:

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

(ii) The Chairman of the Board, and Chairmen of the Audit Committee, Remuneration Committee and Nomination Committee, and members from the respective committees, attended the 2018 AGM to address shareholders' queries.

(iii) External auditor attended the 2018 AGM and was available to assist the Directors in addressing queries from shareholders relating to the conduct of the audit and the preparation and content of its auditor's report.

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

The 2019 AGM will be held at 22/F., CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong on Thursday, 6 June 2019 at 10:30 a.m. Notice of the 2019 AGM will be sent to all shareholders at least 20 clear business days before the said meeting.

Voting by poll

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

COMMUNICATION WITH SHAREHOLDERS (Cont'd)

Shareholders' Rights

Procedures for shareholders convening meetings

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

Pursuant to Bye-law 58 of the Company's Bye-Laws, shareholder(s) of the Company holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a SGM to be called by the Board for the transaction of any business specified in such requisition. The written requisition must be deposited at 22/F., CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong, the Company's Head Office and Principal Place of Business in Hong Kong, for the attention of the Company Secretary.

Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in accordance with the Bermuda Companies Act 1981.

Procedures for shareholders putting forward proposals

Pursuant to the Bermuda Companies Act 1981, shareholder(s) of the Company representing not less than one-twentieth of the total voting rights at the date of the requisition or not less than 100 shareholders may put forward a proposal at general meeting, by sending a written requisition to the Board at the Company's Head Office and Principal Place of Business in Hong Kong. The proposal should be stated in the written requisition and such written requisition should be submitted as early as practicable to enable the Company to make necessary arrangement (in case of a requisition requiring notice of a resolution, not less than six weeks before the meeting; and in case of any other requisition, not less than one week before the meeting).

Procedures for shareholders nominating Directors

Pursuant to Bye-law 88 of the Company's Bye-Laws, any shareholder, shall at all times have the right, to propose a person other than a retiring Director of the Company for election as a Director at a general meeting of the Company. The Company's procedures for shareholders to propose a person for election as a director are available on the Company's website.

Corporate Governance Report

COMMUNICATION WITH SHAREHOLDERS (Cont'd)

Investor Relations

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

Shareholders may also send their enquiries in writing to the Company's Head Office and Principal Place of Business in Hong Kong by email to info@highfashion.com.hk for the attention of the Company Secretary.

Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars. Such published documents, together with the latest corporate information are also made available on the Company's website. The corporate information and shareholders & investor relation information is set out on pages 167 to 168 of this report.

Independent Auditor's Report

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of High Fashion International Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 51 to 164, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

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

KEY AUDIT MATTERS (Cont'd)

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
We identified valuation of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the judgment and estimate associated with determining the fair value. The Group's investment properties portfolio comprises office and retail properties. The carrying value of the Group's investment properties amounted to approximately HK$1,926,240,000 as at 31 December 2018. During the year ended 31 December 2018, certain property, plant and equipment and prepaid lease payments with carrying amounts of HK$40,581,000 and HK$495,000, respectively, were transferred to investment properties. Fair value at the date of transfer was approximately HK$175,899,000. The difference between the carrying amounts and the fair value of these properties of HK$134,823,000 was credited to property revaluation reserve. The fair value change recognised in profit or loss in respect of these investment properties was approximately HK$55,204,000 for the year ended 31 December 2018. All of the Group's investment properties are measured using the fair value model based on a valuation performed by independent qualified professional valuers (the "Valuers"). As disclosed in note 4 to the consolidated financial statements, in determining the fair value, the Valuers have applied a market value basis that involves, inter-alia, certain estimates, including comparable market transactions, development costs, appropriate capitalisation rates and reversionary income potential.	Our procedures in relation to valuation of investment properties as at date of transfer from property, plant and equipment and prepaid lease payments, and as at year end date included: • evaluating the competence, capabilities, and objectivity of the Valuers and obtaining an understanding of the Valuers' scope of work and their terms of engagement; • evaluating the appropriateness of the valuation methodology used and the reasonableness of key assumptions, such as market prices, market rents and capitalisation rates applied in the valuation models based on our knowledge of the real estate industry; and • evaluating the accuracy and relevance of the key data inputs used in the valuation of the Group's investment properties, including market price, rental income and development costs, on a sample basis, against the appropriate supporting documents.

Independent Auditor's Report

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

KEY AUDIT MATTERS (Cont'd)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of sale of garments with no alternative use	
We identified revenue recognition as a key audit matter due to judgment used by management of the Group in determining whether revenue shall be recognised over time or at a point in time as the Group satisfies the performance obligation in relation to sale of garments with no alternative use upon application of HKFRS 15 on 1 January 2018. Under HKFRS 15.35(c), control of an asset is transferred over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date, or otherwise at a point in time upon customer obtains control of that asset. The Group has considered the contractual terms with the relevant customers, the laws that apply to the relevant contracts for sale of garments with no alternative use and the opinion from external legal counsel, and determined that the terms of these sales contracts do not create an enforceable right to payment for the Group. As disclosed in note 5 to the consolidated financial statements, revenue from manufacturing and trading of garments amounted to HK$2,854,997,000 for the year ended 31 December 2018 was recognised at a point in time.	Our procedures in relation to revenue recognition of sale of garments with no alternative use included: • obtaining an understanding of the revenue process; • evaluating and challenging the assumptions and judgments made by management in determining the timing of revenue recognition of manufactured garments with no alternative use, with reference to the relevant contractual terms with customers and the opinion obtained from external legal counsel in relation to the Group's enforceable right to payment against the relevant sales contracts and in the relevant legal jurisdictions; and • testing a selection of sales transactions to the corresponding delivery documents to assess the appropriateness of the timing of revenue recognition.

Independent Auditor's Report

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

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Tsang Yiu Chung.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Revenue			
Goods and services		**3,044,016**	2,704,522
Rental		**30,729**	28,452
Total revenue	*5*	**3,074,745**	2,732,974
Cost of sales		**(2,516,612)**	(2,208,070)
Gross profit		**558,133**	524,904
Other income		**28,324**	34,395
Other gains and losses	*7*	**42,071**	98,752
Net impairment loss recognised on financial assets		**(2,854)**	(3,389)
Administrative expenses		**(341,821)**	(323,812)
Selling and distribution expenses		**(203,259)**	(191,475)
Other expenses		**(14,792)**	(18,147)
Finance costs	*8*	**(29,937)**	(32,100)
Share of losses of joint ventures	*19*	**(6,117)**	(527)
Profit before taxation		**29,748**	88,601
Income tax credit (expenses)	*10*	**8,920**	(45,926)
Profit for the year	*11*	**38,668**	42,675
Other comprehensive (expense) income	*12*		
Items that will not be reclassified to profit or loss:			
Exchange differences on translation of financial statements from functional currency to presentation currency		**(171,245)**	211,177
Fair value loss on equity instruments at fair value through other comprehensive income		**(4,973)**	–
Gain on revaluation of owner-occupied properties		**134,823**	101,201
Income tax relating to items that will not be reclassified		**(25,353)**	(25,300)
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		**(4,363)**	(2,806)
Fair value gain on hedging instruments under cash flow hedges		**–**	34,077
Reclassified to profit or loss on realisation of cash flow hedges		**–**	21,782
Income tax relating to items that may be reclassified subsequently		**–**	(7,518)
Other comprehensive (expense) income for the year, net of tax		**(71,111)**	332,613
Total comprehensive (expense) income for the year		**(32,443)**	375,288
Profit for the year attributable to:			
Owners of the Company		**43,640**	41,976
Non-controlling interests		**(4,972)**	699
		38,668	42,675
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(27,632)**	375,298
Non-controlling interests		**(4,811)**	(10)
		(32,443)	375,288
Earnings per share	*14*		
Basic		**HK$0.14**	HK$0.14
Diluted		**HK$0.14**	N/A

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	*15*	**533,391**	609,975
Prepaid lease payments	*16*	**62,738**	68,717
Investment properties	*17*	**1,926,240**	1,649,855
Intangible assets	*18*	**8,223**	6,529
Interests in joint ventures	*19*	**10,456**	17,070
Equity instruments at fair value through other comprehensive income ("FVTOCI")	*20*	**19,493**	–
Available-for-sale ("AFS") investments	*20*	**–**	675
Deferred tax assets	*21*	**28,839**	26,012
Other non-current assets	*22*	**31,729**	26,074
		2,621,109	2,404,907
Current assets			
Inventories	*23*	**456,413**	522,524
Properties held for sale	*24*	**221,482**	188,891
Trade receivables	*25*	**433,309**	409,056
Prepaid lease payments	*16*	**2,034**	2,001
Deposits, prepayments and other receivables	*27*	**153,513**	175,968
Amounts due from joint ventures	*28*	**24,920**	27,050
Tax recoverable		**187,871**	175,872
Structured deposits	*29*	**269,435**	–
Short-term bank deposits	*30*	**55,203**	490,131
Bank balances and cash	*31*	**658,463**	503,357
		2,462,643	2,494,850
Current liabilities			
Trade payables	*32*	**306,413**	361,375
Other payables and accruals	*33*	**184,792**	203,089
Provision	*27*	**2,372**	–
Amount due to a joint venture	*28*	**3,984**	–
Amount due to an associate	*34*	**583**	583
Contract liabilities	*35*	**280,705**	–
Tax payable		**161,685**	167,239
Derivative financial instruments	*36*	**8,498**	4,485
Obligations under finance leases		**19**	75
Bank borrowings	*37*	**688,358**	1,387,004
Bank overdrafts	*37*	**–**	694
		1,637,409	2,124,544
Net current assets		**825,234**	370,306
Total assets less current liabilities		**3,446,343**	2,775,213

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Deferred tax liabilities	*21*	**256,803**	251,492
Derivative financial instruments	*36*	**–**	734
Bank Borrowings	*37*	**692,500**	–
Provision for long service payments	*38*	**2,803**	2,859
Obligations under finance leases		**–**	20
		952,106	255,105
Net assets		**2,494,237**	2,520,108
Capital and reserves			
Share capital	*39*	**30,562**	30,562
Share premium and reserves		**2,493,802**	2,514,862
Equity attributable to owners of the Company		**2,524,364**	2,545,424
Non-controlling interests		**(30,127)**	(25,316)
Total equity		**2,494,237**	2,520,108

The consolidated financial statements on pages 51 to 164 were approved and authorised for issue by the Board of Directors on 29 March 2019 and are signed on its behalf by:

LAM FOO WAH
DIRECTOR

SO SIU HANG, PATRICIA
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Reserve funds HK$'000 *(note i)*	Property revaluation reserve HK$'000 *(note ii)*	Investment revaluation reserve HK$'000	Capital redemption reserve HK$'000	Share options reserve HK$'000	Other reserve HK$'000 *(note iv)*	Retained profits HK$'000	Subtotal HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
At 31 December 2017	30,562	287,656	282,817	79,173	192,856	-	8,511	-	39,853	1,623,996	2,545,424	(25,316)	2,520,108
Adjustments *(note 2)*	-	-	-	-	-	23,466	-	-	-	1,362	24,828	-	24,828
At 1 January 2018 (restated)	30,562	287,656	282,817	79,173	192,856	23,466	8,511	-	39,853	1,625,358	2,570,252	(25,316)	2,544,936
Profit (loss) for the year	-	-	-	-	-	-	-	-	-	43,640	43,640	(4,972)	38,668
Exchange differences on translation of financial statements from functional currency to presentation currency	-	-	(171,234)	-	-	-	-	-	-	-	(171,234)	(11)	(171,245)
Fair value loss on equity instruments at FVTOCI	-	-	-	-	-	(4,973)	-	-	-	-	(4,973)	-	(4,973)
Gain on revaluation of owner-occupied properties	-	-	-	-	134,823	-	-	-	-	-	134,823	-	134,823
Income tax relating to items that will not be reclassified	-	-	-	-	(25,353)	-	-	-	-	-	(25,353)	-	(25,353)
Exchange differences arising on translation of financial statements of foreign operations	-	-	(4,535)	-	-	-	-	-	-	-	(4,535)	172	(4,363)
Other comprehensive (expense) income for the year	-	-	(175,769)	-	109,470	(4,973)	-	-	-	-	(71,272)	161	(71,111)
Total comprehensive (expense) income for the year	-	-	(175,769)	-	109,470	(4,973)	-	-	-	43,640	(27,632)	(4,811)	(32,443)
Transfer to reserve funds	-	-	-	3,825	-	-	-	-	-	(3,825)	-	-	-
Dividends declared and paid in cash *(note 13)*	-	-	-	-	-	-	-	-	-	(18,336)	(18,336)	-	(18,336)
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	80	-	-	80	-	80
	-	-	-	3,825	-	-	-	80	-	(22,161)	(18,256)	-	(18,256)
At 31 December 2018	30,562	287,656	107,048	82,998	302,326	18,493	8,511	80	39,853	1,646,837	2,524,364	(30,127)	2,494,237

Notes:

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

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

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

(iv) Other reserve represents capitalisation of retained profits of a subsidiary.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**29,748**	88,601
Adjustments for:		
Net allowance for inventory obsolescence	**24,320**	3,707
Net impairment loss on trade receivables	**2,854**	3,389
Finance costs	**24,501**	26,333
Interest income	**(11,865)**	(19,190)
Increase in fair value of investment properties	**(55,204)**	(170,743)
Depreciation of property, plant and equipment	**56,490**	63,335
Amortisation of prepaid lease payments	**1,842**	2,442
Loss on disposal/written-off of property, plant and equipment	**1,497**	1,072
Realisation of cash flow hedges reclassified from other comprehensive income	**–**	20,399
Unrealised fair value change of derivative financial instruments	**3,279**	59,616
Fair value change of financial assets at fair value through profit or loss ("FVTPL")	**(3,355)**	–
Provision	**2,372**	–
Shares of losses of joint ventures	**6,117**	527
Equity-settled share option expenses	**80**	–
Operating cash flows before movements in working capital	**82,676**	79,488
Decrease (increase) in inventories	**25,055**	(87,956)
Increase in properties held for sale	**(51,412)**	(14,261)
Increase in trade receivables	**(30,214)**	(33,305)
Decrease (increase) in deposits, prepayments and other receivables	**19,459**	(18,262)
(Decrease) increase in trade payables	**(54,685)**	19,166
(Decrease) increase in other payables and accruals	**(4,756)**	10,356
Increase (decrease) in amount due to a joint venture	**3,984**	(867)
Increase in contract liabilities	**238,916**	–
Long service payments utilised	**(56)**	(624)
Net change in derivative financial instruments	**–**	(22,490)
Increase (decrease) in discounted bills with recourse	**500**	(156)
Net cash from (used in) operations	**229,467**	(68,911)
Hong Kong Profits Tax paid	**(16,294)**	(16,314)
Overseas taxes paid	**(8,768)**	(4,246)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**204,405**	(89,471)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
INVESTING ACTIVITIES		
New short-term bank deposits placed	**(56,702)**	(468,605)
Withdrawal of short-term bank deposits	**478,055**	641,070
New structured deposits placed	**(276,963)**	–
Interests received	**16,027**	21,862
Purchases of property, plant and equipment	**(52,511)**	(54,134)
Proceeds on disposal of property, plant and equipment	**938**	410
Additions to investment properties	**(57,167)**	(23,570)
Additions to intangible assets	**(1,694)**	(6,529)
Repayment from joint ventures	**1,132**	671
NET CASH FROM INVESTING ACTIVITIES	**51,115**	111,175
FINANCING ACTIVITIES		
New bank borrowings raised	**1,245,180**	1,172,195
Repayment of bank borrowings	**(1,249,573)**	(1,004,347)
Interests paid	**(38,433)**	(29,680)
Dividends paid by the Company	**(18,336)**	(18,336)
Repayments of obligations under finance leases	**(74)**	(66)
Interest paid on obligations under finance leases	**(6)**	(12)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(61,242)**	119,754
NET INCREASE IN CASH AND CASH EQUIVALENTS	**194,278**	141,458
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**502,663**	330,195
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET	**(38,478)**	31,010
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**658,463**	502,663
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**658,463**	503,357
Bank overdrafts	**–**	(694)
	658,463	502,663

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. GENERAL

High Fashion International Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed on page 167 to the annual report.

At 31 December 2018, Hinton Company Limited and High Fashion Charitable Foundation Limited, companies ultimately owned by Mr. Lam Foo Wah ("Mr. Lam"), the Chairman and Managing Director of the Company, and Mr. Lam, collectively owned 65.33% of ordinary shares of the Company and collectively held the same percentage of the voting rights of the Company. Accordingly, Mr. Lam is considered as the ultimate controlling party of the Company.

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

The Company acts as investment holding company. The principal activities of the Group are the manufacturing, retailing and trading of garments, as well as property investment and development.

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

New and amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
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
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Cont'd)

HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognises revenue from the following major sources:

- manufacturing and trading of garments;
- brand business; and
- property investment and development, including rental income from leasing of properties and revenue from sale of properties.

Among the above revenue streams, rental income is recognised in accordance with HKAS 17 "Leases".

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3, respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Cont'd)

HKFRS 15 "Revenue from Contracts with Customers" (Cont'd)

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amount previously reported at 31 December 2017 HK$'000	Reclassification HK$'000	**Carrying amount reported at 1 January 2018* HK$'000**
Current liabilities			
Other payables and accruals	203,089	(41,789)	**161,300**
Contract liabilities	–	41,789	**41,789**

* The amounts in this column are before the adjustments from the application of HKFRS 9.

At 1 January 2018, advances from customers of HK$41,789,000 in respect of sales orders previously included in other payables and accruals have been reclassified to contract liabilities.

Under HKAS 18, the Group recognised sale of garments with no alternative use at a point in time when the garments are delivered and titles have passed. Upon application of HKFRS 15, the Group considered the contractual terms with the relevant customers, the laws that apply to the relevant contracts and the opinion from external legal counsel, and determined that the application HKFRS 15 has had no impact on the timing of revenue recognition as the terms of these sales contracts do not create an enforceable right to payment to the Group.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Cont'd)

HKFRS 15 "Revenue from Contracts with Customers" (Cont'd)

Summary of effects arising from initial application of HKFRS 15 (Cont'd)

The following tables summarise the impact of applying HKFRS 15 on the consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the change have not been included.

Impact on consolidated statement of financial position

	As reported HK$'000	Adjustment HK$'000	Amount without application of HKFRS 15 HK$'000
Current liabilities			
Other payables and accruals	184,792	280,705	465,497
Contract liabilities	280,705	(280,705)	–

Impact on consolidated statement of cash flows

	As reported HK$'000	Adjustment HK$'000	Amount without application of HKFRS 15 HK$'000
(Decrease) increase in other payables and accruals	(4,756)	238,916	234,160
Increase in contract liabilities	238,916	(238,916)	–

HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets, and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Cont'd)

HKFRS 9 "Financial Instruments" (Cont'd)

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	AFS investments HK$'000	Equity instruments at FVTOCI HK$'000	Trade receivables HK$'000	Investment component of a life insurance contract HK$'000	Deferred tax assets HK$'000	Deferred tax liabilities HK$'000	Investment revaluation reserve HK$'000	Retained profits HK$'000
Closing balance at 31 December 2017 – HKAS 39		675	–	409,056	26,074	26,012	251,492	–	1,623,996
Effects arising from initial application of HKFRS 9:									
Reclassification									
From AFS investments	*(i)*	(675)	675	–	–	–	–	–	–
Remeasurement									
From cost less impairment to fair value	*(i)*	–	23,791	–	–	–	–	23,466	325
From amortised cost to fair value	*(ii)*	–	–	–	3,743	–	–	–	3,743
Impairment under ECL model	*(iii)*	–	–	(3,079)	–	129	(244)	–	(2,706)
Opening balance at 1 January 2018		–	24,466	405,977	29,817	26,141	251,248	23,466	1,625,358

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Cont'd)

HKFRS 9 "Financial Instruments" (Cont'd)

Summary of effects arising from initial application of HKFRS 9 (Cont'd)

Notes:

(i) AFS investments

The Group elected to present in other comprehensive income for the fair value change of all its equity investments previously classified as AFS investments, which related to unlisted equity investments previously measured at cost less impairment. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$675,000 was reclassified from AFS investments to equity instruments at FVTOCI. The fair value gain of HK$23,791,000 was adjusted to equity instruments at FVTOCI and investment revaluation reserve at 1 January 2018. In addition, impairment loss previously recognised of HK$325,000 was transferred from retained profits to investment revaluation reserve as at 1 January 2018.

(ii) Investment component of a life insurance contract

Investment component of a life insurance contract of HK$26,074,000 was previously measured at loans and receivables and reclassified to FVTPL upon the application of HKFRS 9 because its cash flows do not represent solely payments of principal and interest on the principal amount outstanding. The related fair value gain of HK$3,743,000 was adjusted to financial assets at FVTPL and retained profits as at 1 January 2018.

(iii) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables, on an individual basis.

Loss allowances for other financial assets at amortised cost, including deposits and other receivables, amounts due from joint ventures, short-term bank deposits and bank balances, are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

At 1 January 2018, additional credit loss allowance of HK$3,079,000 has been recognised against retained profits. The additional loss allowance is charged against trade receivables. Deferred tax assets increased by HK$129,000 and deferred tax liabilities decreased by HK$244,000 as a result of the additional loss allowance charged.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Cont'd)

Amendments to HKAS 40 "Transfers of Investment Property"

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by evidence that a change in use has occurred. The amendments further clarify that situations other than those listed in HKAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

At the date of initial application, the Group assessed the classification of the investment properties based on conditions existing at that date. There was no impact to the classification at 1 January 2018.

The Group transferred certain owner-occupied properties to investment properties during the year ended 31 December 2018 as a result of the end of owner-occupation as disclosed in note 17. The application of amendments to HKAS 40 has had no impact to the timing of such transfer to investment properties.

Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Cont'd)

Amendments to HKAS 40 "Transfers of Investment Property" (Cont'd)

Impacts on opening consolidated statement of financial position arising from the application of all new standards (Cont'd)

	31 December 2017 (audited) HK$'000	HKFRS 15 HK$'000	HKFRS 9 HK$'000	1 January 2018 (restated) HK$'000
Non-current assets				
AFS investments	675	–	(675)	–
Equity instruments at FVTOCI	–	–	24,466	24,466
Deferred tax assets	26,012	–	129	26,141
Other non-current assets	26,074	–	3,743	29,817
Current assets				
Trade receivables	409,056	–	(3,079)	405,977
Current liabilities				
Other payables and accruals	203,089	(41,789)	–	161,300
Contract liabilities	–	41,789	–	41,789
Non-current liabilities				
Deferred tax liabilities	251,492	–	(244)	251,248
Capital and reserves				
Share premium and reserves	2,514,862	–	24,828	2,539,690

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position at 1 January 2018 as disclosed above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[5]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 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]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[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 Effective for annual periods beginning on or after a date to be determined.

5 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

Except as mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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

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

HKFRS 16 "Leases"

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted for as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold land for own use and those classified as investment properties, while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance with the nature, as appropriate.

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

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

At 31 December 2018, the Group has non-cancellable operating lease commitments of HK$34,675,000 as disclosed in note 45. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

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

HKFRS 16 "Leases" (Cont'd)

In addition, the Group currently considers refundable rental deposits paid of HK$3,444,000 and refundable rental deposits received of HK$3,792,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

HK(IFRIC) – Int 23 "Uncertainty over Income Tax Treatments"

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

As set out in note 10, the Group has certain disputes with the Hong Kong Inland Revenue Department ("IRD") on the taxability of certain offshore income. At present, the Group is making various submissions to the IRD to support that their present tax treatment is in accordance with the relevant laws and regulations. Upon the application of the interpretation, the directors of the Company reassessed the Group's tax position based on the likelihood that the IRD will accept the tax treatment. This may potentially affect the amounts of current tax, and deferred tax recognised in respect of tax losses, recorded in the consolidated financial statements, while the directors of the Company are in the process of assessing the full impact upon application of the interpretation.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Interests in joint ventures

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

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

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

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (Cont'd)

Variable consideration

The Group sells brand garments to retail customers who can return the goods for refund. These contracts contain variable consideration. The Group estimates the amount of consideration to which it will be entitled using the expected value method.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Revenue recognition (before application of HKFRS 15 on 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing

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

The Group as lessor

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

Rental income which are derived from the Group's ordinary course of business are presented as revenue.

The Group as lessee

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

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

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Leasehold land and building

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

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies

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

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

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

Borrowing costs

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

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

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

Retirement benefit costs

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Short-term and other long-term employee benefits

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

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

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

Equity-settled share-based payment transactions

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

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

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

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

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Government grants

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

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

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

Property, plant and equipment

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

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

Investment properties

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

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

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

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

Internally generated intangible assets – research and development expenditure

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Internally generated intangible assets – research and development expenditure (Cont'd)

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

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

Impairment losses on assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Provision

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Properties held for sale

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

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

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

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

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

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Cont'd)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, deposits and other receivables, amounts due from joint ventures, short-term bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade and lease receivables. The ECL on trade and lease receivables are assessed individually.

For all other instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, 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. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Cont'd)

(i) Significant increase in credit risk (Cont'd)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Cont'd)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, where the corresponding adjustment is recognised through a loss allowance account.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

The Group's financial assets include loans and receivables, financial assets at FVTPL and AFS financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the "other gains and losses" line item. Fair value is determined in the manner described in note 42.

(ii) AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables or financial assets at FVTPL. The Group designated certain items on initial recognition for long-term strategic investment as AFS financial assets.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Cont'd)

(iii) Loans and receivables

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

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Cont'd)

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

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

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

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

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

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

Derivative financial instruments

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

Hedge accounting before application of HKFRS 9 on 1 January 2018

The Group designates certain derivatives as hedging instruments for cash flow hedges, which are hedges of highly probably forecast transactions with external customers for foreign currency risk exposure. The hedged item represents highly probably forecast transactions which are denominated in a currency other than the functional currency of the respective group entities entering into the transactions and the foreign currency risk under the hedging arrangement will affect profit or loss.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Hedge accounting before application of HKFRS 9 on 1 January 2018 (Cont'd)

A hedge is regarded as highly effective only if both of the following conditions are met:

- at the inception and in subsequent periods, the hedge is expected to be highly effective; and
- the actual results of the hedge are within a range of 80 to 125 per cent.

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

Amounts previously recognised in other comprehensive income and accumulated in hedging reserve are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transactions is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgments in applying accounting policies

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

Revenue recognition from sale of garments with no alternative use

Under HKFRS 15.35(c), control of an asset is transferred over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date, or otherwise at a point in time upon customer obtains control of that asset. Significant judgment is required in determining whether the terms of the Group's contracts with customers create an enforceable right to payment for the Group. The Group has considered the contractual terms with the relevant customers, the laws that apply to the relevant contracts for sale of garments with no alternative use and the opinion from external legal counsel. Based on the assessment of the directors of the Company, the terms of these sales contracts do not create an enforceable right to payment to the Group, and accordingly, sale of garments with no alternative use is considered to be performance obligation satisfied at a point in time.

Deferred taxation on investment properties

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

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

Key sources of estimation uncertainty

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

Income taxes

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

Fair value of investment properties

All of the Group's investment properties are measured using the fair value model based on a valuation performed by independent qualified professional valuers. In determining the fair value, the valuers have applied a market value basis that involves, inter-alia, certain estimates, including comparable market transactions, development costs, appropriate capitalisation rates and reversionary income potential. In relying on the valuation, management of the Group has exercised judgment and is satisfied that the valuation method used is reflective of the current market conditions. At 31 December 2018, the carrying amount of investment properties was HK$1,926,240,000 (2017: HK$1,649,855,000).

Provision in respect of the ongoing enquiry of customs duty

Provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. As disclosed in note 27, the Group has an ongoing enquiry by the customs authority in Shaoxing City of Zhejiang Province in the PRC in relation to customs duty for import of certain machinery parts and apparel accessories for manufacturing by the PRC factories into China. Notwithstanding the judgments made by the court, the Group's legal professionals in the PRC advised that the evidence relied upon by the court is not factually supported. Based on the legal advice, management of the Group determined it is not probable that the Group will be required to settle penalty and unpaid customs stated in the court judgments. At 31 December 2018, the Group made a provision for penalty for not complying the processing trade requirement of approximately RMB2,000,000 (equivalent to approximately HK$2,372,000) (2017: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5. REVENUE

For the year ended 31 December 2018

Disaggregation of revenue from contracts with customers

	HK$'000
Recognised at a point in time under HKFRS 15:	
Manufacturing and trading of garments	2,854,997
Sale of brand garments	135,567
Sale of properties	53,452
Revenue from contracts with customers	3,044,016
Rental income recognised under HKAS 17	30,729
	3,074,745
Geographical markets:	
Canada	99,252
Hong Kong	202,801
The PRC	1,016,379
United States of America ("USA")	1,061,319
United Kingdom	165,760
Other European countries	309,434
Others	219,800
	3,074,745

Set out below is the reconciliation of revenue from contracts with customers with the amounts disclosed in segment information:

	Manufacturing and trading of garments HK$'000	Brand business HK$'000	Property investment and development HK$'000
Segment revenue	2,896,695	135,567	84,181
Less: rental income recognised under HKAS 17	–	–	(30,729)
Less: inter-segment sales	(41,698)	–	–
Revenue from contracts with customers	2,854,997	135,567	53,452

5. REVENUE (Cont'd)

For the year ended 31 December 2018 (Cont'd)

Performance obligations for contracts with customers

Manufacturing and trading of garments

Contracts with customers within the Group's manufacturing and trading business include promises to sell garments, fabrics and accessories. The transaction price is typically allocated to performance obligations based upon stand-alone selling prices. Significant judgment is required in determining the timing of revenue recognition in accordance with HKFRS 15.35(c) on whether the terms of the Group's contracts with customers create an enforceable right to payment for the Group. The Group has considered the contractual terms with the relevant customers, the laws that apply to the relevant contracts for sale of garments with no alternative use and the opinion from external legal counsel. Based on the assessment of the directors of the Company, the terms of these sales contracts do not create an enforceable right to payment to the Group, and accordingly, revenue associated with the sale of products are recognised at the point in time when control of the promised goods has been transferred to the customers. The point in time when control transfers to the customer depends on the contractually agreed upon shipping terms, but typically occurs once the product has been shipped or once it has been delivered to a location specified by the customers. Transportation and handling activities that occur before the customers obtain control over the relevant goods are considered as fulfilment activities.

Certain contracts, primarily those for sale of tailor-made products, require upfront customer deposits that result in a contract liability. Upfront deposits or prepayments are usually invoiced upon acceptance of sales orders for certain customers. Customers are granted credit terms which generally range from 30 to 90 days from the invoice date, which approximates the respective revenue recognition dates. Such terms are common within the industries in which the Group is associated and are not considered financing arrangements.

Sale of brand garments (retail business)

Revenue within the Group's retail business is recognised when the customer takes physical possession of the products, which occurs at the point of sale for merchandise purchased at the Group's retail stores. Customers are allowed to return the goods for refund within 7 days after the respective sales take place. Revenue is recognised at an expected value of the transaction price adjusted for estimated returns based on historical trends. Payment is due at the point of sale.

Sale of properties

Revenue from sale of properties is recognised at a point in time when the completed property is transferred to customers, being at the time when the customer obtains control of the completed property and the Group has present right to payment and collection of the consideration is probable.

The Group receives certain portion of contract value as deposits from customers when they sign the sale and purchase agreement. Such advance payment is recognised as a contract liability in the consolidated statement of financial position.

The Group has elected not to adjust the promised amount of consideration for a significant financing component as the Group expects that the period of time between the Group's satisfaction of the performance obligation and the customer's payment would be one year or less. Besides, the Group has elected to apply the practical expedient to recognise the incremental costs of obtaining a contract as an expense when incurred as the amortisation period would be one year or less.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5. REVENUE (Cont'd)

For the year ended 31 December 2018 (Cont'd)

Transaction price allocated to the remaining performance obligations

As at 31 December 2018, contracts with customers with unsatisfied performance obligations have original expected duration of one year of less. As permitted under HKFRS 15, the aggregate amount of transaction price allocated to these unsatisfied contracts is not disclosed.

For the year ended 31 December 2017

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

	HK$'000
Manufacturing and trading of garments	2,492,109
Brand business	175,663
Property investment and development	65,202
	2,732,974

6. SEGMENT INFORMATION

Information reported to the Group's executive directors, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and performance assessment, is analysed based on components of the Group that are regularly reviewed by the CODM. These components are (i) manufacturing and trading of garments; (ii) brand business; and (iii) property investment and development.

6. SEGMENT INFORMATION (Cont'd)

Segment revenue and results

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

For the year ended 31 December 2018

	Manufacturing and trading of garments HK$'000	Brand business HK$'000	Property investment and development HK$'000	Segment total HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE						
External sales	2,854,997	135,567	84,181	3,074,745	–	3,074,745
Inter-segment sales *(note i)*	41,698	–	–	41,698	(41,698)	–
Segment revenue	2,896,695	135,567	84,181	3,116,443	(41,698)	3,074,745
RESULTS						
Segment profit (loss)	79,297	(43,465)	15,632	51,464	–	51,464
Change in fair value of derivative financial instruments						(43,395)
Change in fair value of investment properties						55,204
Corporate overhead *(note ii)*						(9,768)
Other expenses						(14,792)
Unallocated items						(8,965)
Profit before taxation						29,748

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

6. SEGMENT INFORMATION (Cont'd)

Segment revenue and results (Cont'd)

For the year ended 31 December 2017

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

Notes:

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

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

6. SEGMENT INFORMATION (Cont'd)

Segment revenue and results (Cont'd)

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

Other segment information

For the year ended 31 December 2018

	Manufacturing and trading of garments HK$'000	Brand business HK$'000	Property investment and development HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss:				
Depreciation of property, plant and equipment	55,661	829	–	56,490
Amortisation of prepaid lease payments	1,842	–	–	1,842
Loss on disposal/written-off of property, plant and equipment	1,497	–	–	1,497
Impairment loss on trade receivables recognised (reversed) in profit or loss, net	3,397	(543)	–	2,854
Net allowance for inventory obsolescence	19,993	4,327	–	24,320
Interest income	11,464	36	365	11,865
Finance costs	29,784	127	26	29,937
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:				
Fair value loss on derivative financial instruments	43,395	–	–	43,395
Increase in fair value of financial assets at FVTPL	3,355	–	–	3,355
Increase in fair value of investment properties	–	–	55,204	55,204
Share of losses of joint ventures	6,117	–	–	6,117

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

6. SEGMENT INFORMATION (Cont'd)

Other segment information (Cont'd)

For the year ended 31 December 2017

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

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

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For the year ended 31 December 2018

6. SEGMENT INFORMATION (Cont'd)

Geographical information

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

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

	Revenue		Non-current assets	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
USA	**1,061,319**	951,845	**516**	205
Europe	**475,194**	485,785	**235**	365
Greater China	**1,219,348**	951,314	**2,526,068**	2,330,060
Others	**318,884**	344,030	**3,773**	4,446
	3,074,745	2,732,974	**2,530,592**	2,335,076

Note: Non-current assets excluded interests in joint ventures, AFS investments/equity instruments at FVTOCI, deferred tax assets and other non-current assets.

Information about major customer

During the years ended 31 December 2018 and 2017, there is no customer from manufacturing and trading of garments segment, brand business nor property investment and development segment which contributed over 10% of the total revenue of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

7. OTHER GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
Change in fair value of derivative financial instruments	**(43,395)**	(73,809)
Change in fair value of financial assets at FVTPL	**3,355**	–
Loss on disposal/written-off of property, plant and equipment	**(1,497)**	(1,072)
Net foreign exchange gain	**28,404**	2,890
Increase in fair value of investment properties	**55,204**	170,743
	42,071	98,752

8. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interests on:		
Bank borrowings and overdrafts	**39,683**	29,966
Finance leases	**6**	12
Bank charges on discounted bills	**5,436**	5,767
Total borrowing costs	**45,125**	35,745
Less: Amount capitalised in construction in progress properties held for sale and investment properties under construction that is arisen from specific borrowings	**(15,188)**	(5,028)
	29,937	30,717
Fair value loss reclassified from other comprehensive income to profit or loss on interest rate swaps designated as cash flow hedges for variable-rate bank borrowings	**–**	1,383
	29,937	32,100

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

Directors' and Managing Director's emoluments

The emoluments paid or payable to each of the nine (2017: nine) directors, disclosed pursuant to the applicable Listing Rules and Companies Ordinances, are as follows:

		Other emoluments				
	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits schemes contributions HK$'000	Performance related incentive payments HK$'000	Equity-settled share option expenses HK$'000	Total emoluments HK$'000
2018						
Executive directors						
Lam Foo Wah	200	5,070	–	3,000	–	8,270
So Siu Hang, Patricia	200	3,300	18	1,200	–	4,718
Lam Gee Yu, Will	200	3,000	18	1,400	40	4,658
Lam Din Yu, Well	200	2,700	18	1,400	40	4,358
Non-executive directors						
Yeung Kwok Wing	200	–	–	–	–	200
Hung Ka Hai, Clement	200	840	–	–	–	1,040
Independent non-executive directors						
Wong Shui Hoi, Peter	200	–	–	–	–	200
Leung Hok Lim	200	–	–	–	–	200
Woo King Wai	200	–	–	–	–	200
Total for 2018	1,800	14,910	54	7,000	80	23,844

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

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

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

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

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

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

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

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

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

During the year ended 31 December 2018, share options were granted to certain directors in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 40.

Employee's emoluments

Out of the five individuals with the highest emoluments in the Group, four (2017: four) of them are directors whose emoluments are disclosed above. The emoluments of the remaining one individual (2017: one) are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	**1,690**	1,690
Retirement benefits schemes contributions	**18**	18
Performance related incentive payments	**1,300**	1,300
	3,008	3,008

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

10. INCOME TAX (CREDIT) EXPENSES

	2018 HK$'000	2017 HK$'000
Current tax charge:		
Hong Kong	**2,033**	1,617
PRC	**7,406**	4,741
Other jurisdictions	**246**	568
	9,685	6,926
(Over)underprovision in prior years:		
Hong Kong	**(3,856)**	7,908
PRC	**1,723**	1,177
	(2,133)	9,085
Deferred taxation *(note 21):*		
Current year	**2,728**	27,222
Reversal of withholding tax in respect of undistributed earning of PRC subsidiaries *(note i)*	**(19,200)**	–
Reclassification from other comprehensive income	**–**	2,693
	(16,472)	29,915
	(8,920)	45,926

10. INCOME TAX (CREDIT) EXPENSES (Cont'd)

Notes:

(i) Pursuant to the Announcement of the State Administration of Taxation [2018] No. 9 on 3 February 2018, wholly-owned offshore subsidiaries of companies with Hong Kong resident ("HK resident") having subsidiaries in the PRC ("PRC subsidiaries") have the same beneficial owner status as the HK resident for the purpose of tax treaties between Hong Kong and the PRC with effective from 1 April 2018. The withholding tax rate on profits earned by these PRC subsidiaries will be decreased from 10% to 5%, and accordingly, HK$19,200,000 deferred tax liabilities previously recognised has been reversed.

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

Up to 31 December 2018, the Group has made tax payment of approximately HK$185,034,000 (2017: HK$172,384,000) for conditional standover order of objection against the Assessments, including approximately HK$172,944,000 (2017: HK$160,294,000) tax reserve certificates purchased by the Group. The amount is included in "tax recoverable" in the consolidated statement of financial position.

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

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime is insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards, except for High Fashion Silk (Zhejiang) Co., Ltd. ("High Fashion Silk"), which have been recognised as an advanced technology enterprise by the PRC Tax Bureau in 2018. High Fashion Silk is subject to an income tax rate of 15% for three years starting from the year being recognised as an advanced technology enterprise.

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

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10. INCOME TAX (CREDIT) EXPENSES (Cont'd)

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

	2018 HK$'000	2017 HK$'000
Profit before taxation	**29,748**	88,601
Tax at the income tax rate of 16.5% (2017: 16.5%)	**4,908**	14,619
Effect of different tax rates of subsidiaries operating in other jurisdictions	**3,951**	9,198
Tax effect of share of results of joint ventures	**1,009**	87
Tax effect of income not taxable for tax purpose	**(3,350)**	(2,691)
Tax effect of expenses not deductible for tax purpose	**10,674**	11,513
Tax effect of tax losses not recognised	**11,266**	12,451
Utilisation of tax losses previously not recognised	**(4,367)**	(4,197)
(Over)underprovision in prior years	**(2,133)**	9,085
Tax relief in relation to additional tax deductions on research and development costs incurred and amount spent on acquisition of plant and equipment made in the PRC	**(9,790)**	(6,519)
Reversal of withholding tax in respect of undistributed earning of PRC subsidiaries	**(19,200)**	–
Others	**(1,888)**	2,380
Income tax (credit) expenses	**(8,920)**	45,926

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11. PROFIT FOR THE YEAR

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

	2018 HK$'000	2017 HK$'000
Costs of inventories recognised as expenses (including net allowance for inventory obsolescence) *(note i)*	**2,396,705**	2,095,145
Research and development costs recognised as expenses (included in cost of sales)	**79,112**	79,022
Cost of properties sold (included in cost of sales)	**32,795**	26,606
Amortisation of prepaid lease payments	**1,842**	2,442
Depreciation of property, plant and equipment	**56,490**	63,335
Less: Amount capitalised in inventories	**(36,130)**	(42,283)
	22,202	23,494
Auditor's remuneration	**3,600**	4,817
Minimum lease payments in respect of land and buildings	**22,052**	20,057
Contingent rental expense *(note ii)*	**777**	591
Staff costs (including directors' emoluments):		
Wages, salaries and bonuses	**556,358**	541,573
Retirement benefits schemes contributions	**61,861**	58,109
Equity-settled share option expense	**80**	–
Less: Amount capitalised in investment properties under construction, construction in progress, intangible assets and inventories	**(325,063)**	(304,710)
	293,236	294,972
Realisation of cash flow hedges reclassified from other comprehensive income (included in revenue)	**–**	20,399
Realisation of cash flow hedges reclassified from other comprehensive income (included in finance costs)	**–**	1,383
Gross rental income from investment properties	**(30,729)**	(28,452)
Less: Outgoings for investment properties rented out	**6,817**	7,297
Outgoings for investment properties not rented out	**1,183**	–
Net rental income	**(22,729)**	(21,155)
Government grants (included in other income) *(note iii)*	**(11,508)**	(10,043)
Interest income (included in other income):		
Bank interest income	**(11,846)**	(18,325)
Interest income on other receivables	**(19)**	(865)

11. PROFIT FOR THE YEAR (Cont'd)

Notes:

(i) The amount includes net allowance for inventory obsolescence of HK$24,320,000 (2017: HK$3,707,000).

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

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

12. OTHER COMPREHENSIVE (EXPENSE) INCOME

	2018 HK$'000	2017 HK$'000
Cash flow hedges:		
Fair value gain on hedging instruments	–	34,077
Reclassification adjustments upon realisation of hedged items in profit or loss	–	21,782
	–	55,859
Fair value loss on equity investments at FVTOCI	**(4,973)**	–
Gain on revaluation of owner-occupied properties	**134,823**	101,201
Exchange differences on translation of financial statements from functional currency to presentation currency	**(171,245)**	211,177
Exchange differences arising on translation of financial statements of foreign operations	**(4,363)**	(2,806)
Other comprehensive (expense) income	**(45,758)**	365,431
Income tax relating to components of other comprehensive (expense) income:		
Fair value change of hedging instruments under cash flow hedges	–	(4,825)
Reclassification adjustments of fair value change of hedging instruments to profit or loss	–	(2,693)
Revaluation of owner-occupied properties	**(25,353)**	(25,300)
	(25,353)	(32,818)
Other comprehensive (expense) income for the year, net of tax	**(71,111)**	332,613

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For the year ended 31 December 2018

13. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Dividends recognised as distribution and paid during the year:		
Interim dividend – 3 HK cents per ordinary share for 2018 (2017: 3 HK cents for 2017)	**9,168**	9,168
Final dividend – 3 HK cents per ordinary share for 2017 (2017: 3 HK cents for 2016)	**9,168**	9,168
	18,336	18,336

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of 3 HK cents (2017: final dividend in respect of the year ended 31 December 2017 of 3 HK cents) per ordinary share, in an aggregate amount of HK$9,168,000 (2017: HK$9,168,000) has been proposed by the directors of the Company and is subject to the approval by the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE

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

Earnings	2018 HK$'000	2017 HK$'000
Earnings for the purpose of basic and diluted earnings per share attributable to owners of the Company	**43,640**	41,976

Number of shares	2018 '000	2017 '000
Number of ordinary shares for the purpose of basic and diluted earnings per share	**305,616**	305,616

The computation of diluted earnings per share for the year ended 31 December 2018 does not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price for shares.

No diluted earnings per share was presented for the year ended 31 December 2017 as there was no potential ordinary shares in issue.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land (in Hong Kong) HK$'000	Buildings (in Hong Kong) HK$'000	Buildings (outside Hong Kong) HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Plant and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
COST									
At 1 January 2017	5,058	13,886	521,840	17,967	108,692	548,276	186,356	34,162	1,436,237
Additions	–	–	1,375	29,815	4,628	12,560	5,015	79	53,472
Transfers	–	–	–	(11,580)	2,432	7,478	1,670	–	–
Transfers to investment properties	–	–	(77,521)	–	–	–	–	–	(77,521)
Disposals/written-off	–	–	–	–	(2,340)	(39,213)	(33,695)	(1,596)	(76,844)
Exchange realignment	–	–	41,368	1,301	7,223	38,893	12,460	1,604	102,849
At 31 December 2017	5,058	13,886	487,062	37,503	120,635	567,994	171,806	34,249	1,438,193
Additions	**–**	**–**	**–**	**26,849**	**1,553**	**20,131**	**4,175**	**1,231**	**53,939**
Transfers	**–**	**–**	**–**	**(5,611)**	**1,096**	**4,515**	**–**	**–**	**–**
Transfers to investment properties	**(2,069)**	**(5,694)**	**(43,179)**	**(1,358)**	**–**	**–**	**–**	**–**	**(52,300)**
Disposals/written-off	**–**	**–**	**–**	**–**	**(3,099)**	**(19,218)**	**(41,243)**	**(1,650)**	**(65,210)**
Exchange realignment	**–**	**–**	**(23,696)**	**(1,289)**	**(5,360)**	**(33,347)**	**(6,380)**	**(1,191)**	**(71,263)**
At 31 December 2018	**2,989**	**8,192**	**420,187**	**56,094**	**114,825**	**540,075**	**128,358**	**32,639**	**1,303,359**
ACCUMULATED DEPRECIATION AND IMPAIRMENT									
At 1 January 2017	1,804	5,900	115,527	–	94,451	405,639	150,707	23,624	797,652
Provided for the year	104	278	13,445	–	9,582	31,095	5,379	3,452	63,335
Transfers to investment properties	–	–	(15,163)	–	–	–	–	–	(15,163)
Eliminated on disposals/written-off	–	–	–	–	(2,340)	(38,685)	(32,786)	(1,551)	(75,362)
Exchange realignment	–	–	11,179	–	6,527	28,926	9,820	1,304	57,756
At 31 December 2017	1,908	6,178	124,988	–	108,220	426,975	133,120	26,829	828,218
Provided for the year	**65**	**173**	**13,489**	**–**	**7,492**	**25,989**	**6,101**	**3,181**	**56,490**
Transfers to investment properties	**(817)**	**(2,587)**	**(8,315)**	**–**	**–**	**–**	**–**	**–**	**(11,719)**
Eliminated on disposals/written-off	**–**	**–**	**–**	**–**	**(2,656)**	**(17,705)**	**(40,835)**	**(1,579)**	**(62,775)**
Exchange realignment	**–**	**–**	**(7,743)**	**–**	**(4,652)**	**(21,792)**	**(4,979)**	**(1,080)**	**(40,246)**
At 31 December 2018	**1,156**	**3,764**	**122,419**	**–**	**108,404**	**413,467**	**93,407**	**27,351**	**769,968**
CARRYING VALUE									
At 31 December 2018	**1,833**	**4,428**	**297,768**	**56,094**	**6,421**	**126,608**	**34,951**	**5,288**	**533,391**
At 31 December 2017	3,150	7,708	362,074	37,503	12,415	141,019	38,686	7,420	609,975

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

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

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

The carrying value of the motor vehicles includes an amount of HK$119,000 (2017: HK$226,000) in respect of assets held under finance leases.

The Group has pledged its leasehold land and buildings in Hong Kong with a net book value of approximately HK$6,261,000 (2017: nil) to secure general banking facilities granted to the Group.

16. PREPAID LEASE PAYMENTS

	2018 HK$'000	2017 HK$'000
Analysed for reporting purposes as:		
Non-current assets	**62,738**	68,717
Current assets	**2,034**	2,001
	64,772	70,718

17. INVESTMENT PROPERTIES

	Completed investment properties HK$'000	Investment properties held for development/ under construction HK$'000	Total HK$'000
FAIR VALUE			
At 1 January 2017	1,072,590	116,201	1,188,791
Additions	3,117	23,329	26,446
Transfer from property, plant and equipment and prepaid lease payments	133,521	73,448	206,969
Increase in fair value recognised in profit or loss (included in other gains and losses) – unrealised	100,700	70,043	170,743
Exchange realignment	40,891	16,015	56,906
At 31 December 2017	1,350,819	299,036	1,649,855
Additions	**448**	**96,995**	**97,443**
Transfer from property, plant and equipment and prepaid lease payments	**71,899**	**104,000**	**175,899**
Transfer	**(677,000)**	**677,000**	**–**
Increase in fair value recognised in profit or loss (included in other gains and losses) – unrealised	**17,651**	**37,553**	**55,204**
Exchange realignment	**(34,686)**	**(17,475)**	**(52,161)**
At 31 December 2018	**729,131**	**1,197,109**	**1,926,240**

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

During the year ended 31 December 2018, certain property, plant and equipment and prepaid lease payments with carrying amounts of HK$40,581,000 (2017: HK$62,358,000) and HK$495,000 (2017: HK$43,410,000), respectively, were transferred to investment properties. Valuation which was made by Centaline Surveyors Limited and 新昌信安達資產評估有限公司, independent qualified professional valuers not connected with the Group, at the date of transfer was approximately HK$175,899,000 (2017: HK$206,969,000). The difference between the carrying amount and the fair value of these properties amounting to HK$134,823,000 (2017: HK$101,201,000) was credited to "property revaluation reserve".

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17. INVESTMENT PROPERTIES (Cont'd)

During the year ended 31 December 2018, the Group started the construction work on revitalisation of its office premises located in Hong Kong. According, such properties amounting to HK$677,000,000 have been presented as investment properties under construction at 31 December 2018.

The fair value of the Group's investment properties at 31 December 2018 have been arrived at on the basis of a valuation carried out by Centaline Surveyors Limited and 新昌信安達資產評估有限公司, independent qualified professional valuers not connected with the Group. Centaline Surveyors Limited are members of the Institute of Valuers, while 新昌信安達資產評估有限公司 are certified public valuers in the PRC.

For the completed investment properties and certain investment properties held for development/under construction, the valuations were arrived at by making reference to market evidence of transaction prices for similar properties in similar locations and conditions or on the basis of capitalisation of net income with due allowance for the reversionary income. The net income is the market rentals of all lettable units of the properties and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by making reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood.

At 31 December 2017, management of the Group had yet to complete and obtain approval for development plan of the properties held for development in Tonglu and accordingly, the valuation of such properties was arrived at by making reference to comparable market sale and purchase transactions of vacant land. During the year, development plan of these properties had been determined and approved. Valuation at 31 December 2018 of these properties had been arrived at by direct comparison with comparable properties as available in the market with due allowance for development costs and indirect cost that will be expended to complete the development of the properties, as well as developer's risks associated with the development at the valuation date and the return that the developer would require for bringing the properties to the completion status, which is determined by the valuers on the analysis of recent land transactions and the market value of similar completed properties in the relevant locations.

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

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

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

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17. INVESTMENT PROPERTIES (Cont'd)

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

Description	Fair value as at		Valuation techniques	Unobservable inputs	Significant inputs	Relationship of inputs to fair value
	2018 HK$'000	2017 HK$'000				
Completed investment properties						
Office premises						
– Hong Kong	–	677,000	Comparison approach	Market price per square feet	HK$7,400 per square foot in average and adjusting for age, location, condition and surrounding facilities of the properties	The higher the market price, the higher the fair value
– Shenzhen	191,386	188,795	Income capitalisation approach	(i) Capitalisation rate taking into account the capitalisation of rental income potential and nature of properties	4% (2017: 4%)	The higher the capitalisation rate, the lower the fair value
				(ii) Monthly market rent per square meter	RMB115 (2017: RMB108) per month per square meter in average	The higher the market rent, the higher the fair value
–Xiaoshan	194,097	162,494	Income capitalisation approach	(i) Capitalisation rate taking into account the capitalisation of rental income potential and nature of properties	8% (2017: 8%)	The higher the capitalisation rate, the lower the fair value
				(ii) Monthly market rent per square meter	RMB17 (2017: RMB16) per month per square meter in average	The higher the market rent, the higher the fair value

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17. INVESTMENT PROPERTIES (Cont'd)

Description	Fair value as at 2018 HK$'000	Fair value as at 2017 HK$'000	Valuation techniques	Unobservable inputs	Significant inputs	Relationship of inputs to fair value
Completed investment properties (Cont'd)						
Office premises						
– Shanghai	**35,005**	–	Income capitalisation approach	(i) Capitalisation rate taking into account the capitalisation of rental income potential and nature of properties	4.9%	The higher the capitalisation rate, the lower the fair value
				(ii) Monthly market rent per square meter	RMB27 per month per square meter in average	The higher the market rent, the higher the fair value
Retail premises – Xinchang	**308,643**	322,530	Income capitalisation approach	(i) Capitalisation rate taking into account the capitalisation of rental income potential and nature of properties	4.6% (2017: 4.6%)	The higher the capitalisation rate, the lower the fair value
				(ii) Monthly market rent per square meter	RMB27 (2017: RMB27) per month per square meter in average	The higher the market rent, the higher the fair value
	729,131	1,350,819				

17. INVESTMENT PROPERTIES (Cont'd)

Description	Fair value as at 2018 HK$'000	Fair value as at 2017 HK$'000	Valuation techniques	Unobservable inputs	Significant inputs	Relationship of inputs to fair value
Investment properties held for development/under construction						
Tonglu	**266,544**	212,048	At 31 December 2018			
			Residual approach	(i) Market price per square meter	RMB17,540 per month per square meter in average	The higher the market price, the higher the fair value
				(ii) Construction costs	RMB7,769 per square meter	The higher the cost, the lower the fair value
			At 31 December 2017			
			Comparison approach	Market price per square meter	RMB3,016 per square meter in average and adjusting for location, condition and surrounding facilities of the properties	The higher the market price, the higher the fair value
Xiaoshan	**81,565**	86,988	Comparison approach	Market price per square meter	RMB848 (2017: RMB860) per square meter in average and adjusting for location, condition and surrounding facilities of the properties	The higher the market price, the higher the the fair value
Hong Kong	**849,000**	–	Comparison approach	Market price per square foot	HK$8,000 per square foot in average and adjusting for age, location, condition, outgoings and surrounding facilities of the properties	The higher the market price, the higher the fair value
	1,197,109	299,036				
	1,926,240	1,649,855				

The office premises located in Hong Kong have been pledged to secure banking facilities granted to the Group.

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18. INTANGIBLE ASSETS

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

19. INTERESTS IN JOINT VENTURES

	2018 HK$'000	2017 HK$'000
Cost of unlisted investments in joint ventures	**17,920**	17,920
Share of post-acquisition losses	**(11,424)**	(5,307)
Exchange realignment	**3,960**	4,457
	10,456	17,070

Included in interests in joint ventures is an amount of HK$1,597,000 (2017: HK$8,033,000) which represents High Fashion New Media Corporation Limited's ("New Media") 100% investment in Longford Information & Technology Co., Limited ("Longford"). Longford was established in the PRC during the year ended 31 December 2014 by New Media with a registered capital of RMB30,000,000. The legal representative of Longford is Ms. Mary Leong Ma Li ("Ms. Leong"), who kept the company chops, books and records as well as other relevant documents of Longford since establishment.

On 26 September 2014, the High Court of the Hong Kong Special Administrative Region made an interim order ("Longford Order") to New Media, under which the bank mandate of Longford had to be followed to the effect that one representative of the Group and Ms. Leong shall form joint signatories of the bank account and to operate it jointly. As a result of the Longford Order, Longford has become effectively jointly controlled by New Media and Ms. Leong as decisions regarding the relevant activities of the Longford effectively required unanimous consent of both the Group and Ms. Leong starting from 26 September 2014. As the Longford Order has not been released as at 31 December 2018, Longford is accounted for as a joint venture of the Group irrespective of the Group's 65% effective shareholding thereon.

19. INTERESTS IN JOINT VENTURES (Cont'd)

At 31 December 2018 and 2017, the Group has interests in the following joint ventures:

Name	Form of business structure	Place of registration and operations	Percentage of Ownership interest 2018 %	Ownership interest 2017 %	Voting power 2018 %	Voting power 2017 %	Profit sharing 2018 %	Profit sharing 2017 %	Principal activities
Hangzhou Dalifu Silk Finishing Co., Ltd. *(note i)*	Established	PRC	**51**	51	**50**	50	**51**	51	Dyeing, printing and sandwashing of fabric
Suzhou High Fashion Garment Co., Ltd. ("Suzhou High Fashion") *(notes i & iii)*	Established	PRC	**51**	51	**60**	60	**51**	51	Garment manufacturing
The Silk Passion Company Limited ("Silk Passion") *(notes ii & iii)*	Incorporated	Hong Kong	**51**	51	**60**	60	**51**	51	Trading, marketing and promoting silk products
Flaming China Limited	Incorporated	Hong Kong	**50**	50	**50**	50	**50**	50	Inactive
Longford	Established	PRC	**65**	65	**67**	67	**65**	65	E-commerce

Notes:

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

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

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

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19. INTERESTS IN JOINT VENTURES (Cont'd)

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

	2018 HK$'000	2017 HK$'000
Current assets	**54,540**	64,945
Non-current assets	**14,420**	12,517
Current liabilities	**49,994**	51,709
Income recognised in profit or loss	**23,804**	39,236
Expenses recognised in profit or loss	**29,792**	40,270
Group's share of losses of joint ventures for the year	**6,117**	527

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

	2018 HK$'000	2017 HK$'000
Unrecognised share of losses of joint ventures for the year	**–**	1
Accumulated unrecognised share of losses of these joint ventures	**8,238**	8,238

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

20. EQUITY INSTRUMENTS AT FVTOCI/AFS INVESTMENTS

	2018 HK$'000	2017 HK$'000
Unlisted equity investments	**19,493**	675

Amount represents the Group's equity interests in a private entity incorporated in the British Virgin Islands ("BVI") for long-term strategic purpose. The investments were classified as AFS investments and were measured at cost less impairment as at 31 December 2017, as the directors of the Company were of the opinion that the range of reasonable fair value estimates was so significant that it was not practicable to obtain a reliable measurement of the fair value.

20. EQUITY INSTRUMENTS AT FVTOCI/AFS INVESTMENTS (Cont'd)

Upon initial application of HKFRS 9, the directors of the Company have elected to designate these investments as equity instruments at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run. Accordingly, these investments were reclassified as equity instruments at FVTOCI. Details are set out in note 2.

21. DEFERRED TAXATION

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

	Deferred tax assets						
	Unrealised profit arising on intra-group transactions	Allowance for credit losses	Allowance on obsolete inventories	Impairment loss on property, plant and equipment	Government grant received in respect of properties	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017	203	2,910	7,633	2,151	6,863	229	19,989
(Charge) credit to profit or loss	(178)	117	3,506	933	(138)	77	4,317
Exchange realignment	–	231	725	197	532	21	1,706
At 31 December 2017	25	3,258	11,864	3,281	7,257	327	26,012
Adjustments *(note 2)*	–	129	–	–	–	–	129
At 1 January 2018 (restated)	**25**	**3,387**	**11,864**	**3,281**	**7,257**	**327**	**26,141**
Credit (charge) to profit or loss	**17**	**(283)**	**3,872**	**(34)**	**(141)**	**724**	**4,155**
Exchange realignment	**–**	**(104)**	**(788)**	**(162)**	**(361)**	**(42)**	**(1,457)**
At 31 December 2018	**42**	**3,000**	**14,948**	**3,085**	**6,755**	**1,009**	**28,839**

21. DEFERRED TAXATION (Cont'd)

	Deferred tax liabilities (assets)							
	Accelerated tax depreciation	Revaluation of investment properties	Revaluation of properties and prepaid lease payments transferred to investment properties	Acquisition cost of land use rights	Withholding tax in respect of undistributed earnings of PRC subsidiaries	Fair value change of derivative financial instruments and structured deposits	Tax losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017	2,915	138,212	33,416	–	38,889	1,476	(36,857)	178,051
Charge (credit) to profit or loss	548	39,483	–	2,602	–	(8,752)	351	34,232
Charge to other comprehensive income	–	–	25,300	–	–	4,825	–	30,125
Reversal upon reclassification to profit or loss	–	–	–	–	–	2,693	–	2,693
Exchange realignment	–	4,143	2,154	94	–	–	–	6,391
At 31 December 2017	3,463	181,838	60,870	2,696	38,889	242	(36,506)	251,492
Adjustments (note 2)	–	–	–	–	–	–	(244)	(244)
At 1 January 2018 (restated)	**3,463**	**181,838**	**60,870**	**2,696**	**38,889**	**242**	**(36,750)**	**251,248**
(Credit) charge to profit or loss	**(1,344)**	**15,034**	**–**	**(1,143)**	**(19,200)**	**65**	**(5,729)**	**(12,317)**
Charge to other comprehensive income	**–**	**–**	**25,353**	**–**	**–**	**–**	**–**	**25,353**
Exchange realignment	**–**	**(5,119)**	**(2,244)**	**(96)**	**–**	**(22)**	**–**	**(7,481)**
At 31 December 2018	**2,119**	**191,753**	**83,979**	**1,457**	**19,689**	**285**	**(42,479)**	**256,803**

Under the PRC law, withholding tax is imposed on dividends declared to non-residents in respect of profits earned by subsidiaries in the PRC from 1 January 2008 onwards. Withholding tax rate was decreased from 10% to 5% for the year ended 31 December 2018, with detailed set out in note 10. Deferred tax liabilities have not been provided for in the consolidated financial statements in respect of the temporary differences attributable to the profits earned by subsidiaries in the PRC amounting to HK$152,478,000 (2017: HK$133,350,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

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

21. DEFERRED TAXATION (Cont'd)

The Group has estimated unused tax losses of HK$814,372,000 (2017: HK$736,360,000) available for offsetting against future taxable profits of the companies in which the losses arose. A deferred tax asset has been recognised in respect of HK$257,448,000 (2017: HK$221,248,000) of the temporary differences, while no deferred tax asset has been recognised in respect of the remaining temporary differences of HK$556,924,000 (2017: HK$515,112,000) due to unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$67,797,000 (2017: HK$66,306,000) that will expire in 2028 to 2038. Other tax losses may be carried forward indefinitely.

22. OTHER NON-CURRENT ASSETS

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

At the inception date, the gross premium was separated into the investment component of a life insurance contract and prepayment of life insurance premium. The prepayment of life insurance premium was amortised to profit or loss over the insured period and the investment component was carried at amortised cost using the effective interest method. The effective interest rate for the investment component on initial recognition is 4.61% per annum, which was determined by discounting the estimated future cash receipts through the expected life of the contract of 15 years, excluding the financial effect of surrender charge. At 31 December 2017, the carrying amount was HK$26,074,000.

Upon initial application of HKFRS 9, investment component for a life insurance contract is classified as a financial asset at FVTPL as contractual rights to cash flows do not represent contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. At 31 December 2018, the fair value of the investment component of a life insurance contract was HK$31,009,000, while the carrying amount of the prepayment of premium was HK$720,000.

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23. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	**185,312**	246,346
Work in progress	**133,482**	141,175
Finished goods	**137,619**	135,003
	456,413	522,524

24. PROPERTIES HELD FOR SALE

	2018 HK$'000	2017 HK$'000
Properties under development held for sale	**170,736**	103,261
Completed properties	**50,746**	85,630
	221,482	188,891

The properties under development held for sale are expected to be completed within twelve months (2017: more than twelve months) after the end of the reporting period.

25. TRADE RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables		
Goods and services	**437,784**	411,638
Rental	**10,434**	8,781
	448,218	420,419
Less: Allowance for credit loss	**(14,909)**	(11,363)
	433,309	409,056

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

At 31 December 2018 and 1 January 2018, trade receivables from contracts with customers net of allowance for credit loss amounted to HK$422,875,000 and HK$397,196,000, respectively.

At 31 December 2018, total bills received amounting to HK$4,958,000 (2017: HK$5,807,000) are held by the Group for future settlement of trade receivables, of which certain bills are further discounted by the Group. The Group continues to recognise their full carrying amounts at the end of the reporting period and details are disclosed in note 26. All bills received by the Group are with a maturity period of less than one year.

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25. TRADE RECEIVABLES (Cont'd)

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

	2018 HK$'000	2017 HK$'000
Within 90 days	**401,470**	373,752
91 to 180 days	**23,345**	23,413
181 to 360 days	**7,173**	9,514
Over 360 days	**1,321**	2,377
	433,309	409,056

Impairment assessment on trade and lease receivables subject to ECL model

The Group always measures the loss allowance for trade and lease receivables at an amount equal to lifetime ECL. The expected credit losses on trade and lease receivables are estimated individually by reference to past due status of the individual debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtor, future economic conditions of the industry in which the debtor operates and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

At 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$104,693,000 which are past due as at the reporting date. Out of the past due balances, HK$15,580,000 has been past due 90 days or more but these amounts are not considered as defaulted due to long and on-going business relationship and by considering the expected subsequent and historical repayment from these customers. The Group does not hold any collateral over these balances.

Details of impairment assessment on trade and lease receivables are set out in note 42.

Impairment assessment on trade receivables prior to application of HKFRS 9

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

At 31 December 2017, trade receivables with an aggregate carrying amount of HK$276,314,000 are neither past due nor impaired for which management of the Group considers these amounts are of good credit quality.

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

25. TRADE RECEIVABLES (Cont'd)

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

	2017
	HK$'000
Overdue by:	
Within 90 days	114,689
91 to 180 days	13,010
181 to 360 days	3,063
Over 360 days	1,980
Total	132,742

Movements in the allowance for doubtful debts:

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

Notes:

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

(ii) Individually impaired trade receivable are written off as uncollectible when the customers are in severe financial difficulties. Details are set out in note 42.

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26. TRANSFERS OF FINANCIAL ASSETS

The following is the Group's bills as at 31 December 2018 and 2017 that are transferred to banks by discounting bills on a full recourse basis. If the bills are not paid on maturity, the banks have the rights to request the Group to pay the unsettled balances. As the Group has not transferred the significant risks and rewards relating to the bills, it continues to recognise the full carrying amount of the bills and has recognised the cash received on the transfer as a secured borrowing (see note 37). The bills are carried at amortised cost in the Group's consolidated statement of financial position.

	2018 HK$'000	2017 HK$'000
Carrying amount of transferred assets	**4,803**	4,303
Carrying amount of associated liabilities	**(4,803)**	(4,303)

27. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Customs deposit	**34,319**	36,145
Prepayments and advances to suppliers	**56,348**	81,333
Value-added tax receivables and prepaid other taxes	**44,435**	26,252
Other receivables	**7,697**	16,720
Utility and other deposits	**8,601**	8,534
Others	**2,113**	6,984
	153,513	175,968

Included in deposits, prepayments and other receivables is a deposit of RMB30,000,000 (equivalent to HK$34,319,000) (2017: RMB30,000,000 (equivalent to HK$36,145,000)) paid to the customs authority in Shaoxing City of Zhejiang Province in the PRC in relation to an ongoing enquiry of customs duty for import of certain machinery parts and apparel accessories for manufacturing by the PRC factories into China.

In June 2016, a judgment was made by the Intermediate People's Court Shaoxing, Zhejiang Province (the "Judgment") which stated that the Group had convicted an offence of illicit transportation of common goods or articles without paying customs duty and was required to pay a penalty of approximately RMB28,000,000 and unpaid customs of approximately RMB27,000,000, out of which the RMB30,000,000 deposit previously paid would be confiscated by the customs authority and used to offset the amount payable. In July 2016, the Group appealed against the judgment (the "Appeal") resulting that it became ineffective, and the trail of second instance was brought up to the Higher People's Court of Zhejiang Province.

27. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Cont'd)

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

In April 2018, the Intermediate People's Court Shaoxing, Zhejiang Province retained the same judgment as was made previously ("2018 Judgment"). After seeking advice from the legal and other professionals, the Group appealed against the 2018 Judgment. The Group has submitted and appeal application to the Higher People's Court of Zhejiang Province.

Management of the Group had sought advice from PRC legal professionals, who advised that the evidence relied upon by the court is not factually supported, against which the Group has strong grounds to refute. Nevertheless, the Group may still be subject to a penalty for not complying the processing trade requirement, which is estimated to be approximately RMB2,000,000 (equivalent to approximately HK$2,372,000). The Group has made a provision for penalty for the same amount accordingly and such amount was included in "other expenses" in consolidated statement of profit or loss and other comprehensive income.

The next court hearing is expected to be held within the next twelve months from the end of the reporting period, and therefore, the deposit has been presented as a current asset in the consolidated statement of financial position.

In the opinion of the directors of the Company, the recoverability of the deposit is ultimately dependent on the outcome of the case.

28. AMOUNTS DUE FROM AND TO JOINT VENTURES

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

The amounts due from joint ventures represent receivable of HK$24,920,000 (2017: HK$27,050,000) which is non-trade in nature.

The amount due to a joint venture represents payable of HK$3,984,000 (2017: nil) for purchases of raw materials and finished goods aged within 90 days.

29. STRUCTURED DEPOSITS

The structured deposits are placed with banks in the PRC with coupon linked to certain exchange rates and interest rates detailed below. The structured deposits are classified as financial assets at FVTPL on initial recognition.

Major terms of the structured deposits at 31 December 2018 are as follows:

Principal amount	Maturity *(note i)*	Annual coupon rate	*Notes*
RMB188,480,000	November – December 2019	From 1% to 7%	*(ii)*
RMB45,000,000	April 2019	From 2.2% to 4.2%	*(iii)*

Notes:

(i) All the deposits are subject to the option for early termination by issuing banks.

(ii) The annual coupon rate is dependent on whether the spot rate for conversion of Euro ("EUR") for US$ as prevailing in the international foreign exchange market falls within ranges as specified in the relevant agreements during the period from inception date to maturity date of the relevant agreements.

(iii) The annual coupon rate is dependent on whether 3-month US$ London Interbank Offered Rate ("LIBOR") falls within ranges as specified in the relevant agreements during the period from inception date to maturity date of the relevant agreements.

The above structured deposits are stated at fair value based on valuation provided by the respective financial institutions. The fair values are calculated using discounted cash flow analysis based on the applicable yield curves of relevant exchange rates and interest rates. Details are set out in note 42.

30. SHORT-TERM BANK DEPOSITS

The short-term bank deposits carry interests at fixed rate of 2.15% (2017: 2.1% to 3%) per annum.

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

31. BANK BALANCES AND CASH

Bank balances carry interests at market rates which range from 0.01% to 3.10% (2017: 0.001% to 1%) per annum.

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

Included in bank balance are HK$76,391,000 (2017: nil) deposits received from pre-sale of properties which can only be applied in the development of designated property project.

32. TRADE PAYABLES

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

	2018 HK$'000	2017 HK$'000
Within 90 days	**82,154**	115,681
91 to 180 days	**9,912**	7,475
181 to 360 days	**5,985**	3,214
Over 360 days	**6,379**	7,917
	104,430	134,287
Accrued purchases	**201,983**	227,088
	306,413	361,375

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

At 31 December 2017, total bills amounting to HK$602,000 was included in trade payables aged within 90 days.

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For the year ended 31 December 2018

33. OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Accruals	**25,006**	27,718
Construction costs payable	**15,468**	–
Other payables to suppliers	**21,184**	20,632
Payable for acquisition of property, plant and equipment	**14,435**	1,655
Receipts in advance and overpayment from customers	**3,068**	44,227
Staff salaries and welfare payable and bonus provision	**75,714**	79,692
Value-added tax payable	**16,467**	19,657
Others	**13,450**	9,508
	184,792	203,089

34. AMOUNT DUE TO AN ASSOCIATE

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

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

35. CONTRACT LIABILITIES

	31.12.2018 HK$'000	1.1.2018* HK$'000
Receipts in advance from customers	**36,829**	41,789
Pre-sale proceeds received from sale of properties	**243,876**	–
	280,705	41,789

* The amounts disclosed in this column are after adjustment upon application of HKFRS 15.

All contract liabilities as at 31 December 2018 and 1 January 2018 would be/were recognised as revenue during the year ended 31 December 2019 and 31 December 2018, respectively.

36. DERIVATIVE FINANCIAL INSTRUMENTS

	2018 HK$'000	2017 HK$'000
Dual currency interest rate swap	**2,506**	4,437
Foreign exchange forward contracts	**5,986**	–
Foreign currency and interest rate swap	**6**	782
	8,498	5,219
Analysed for reporting purposes as:		
Non-current liabilities	**–**	734
Current liabilities	**8,498**	4,485
	8,498	5,219

Dual currency interest rate swap

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

The net fair value loss of HK$334,000 (2017: HK$972,000) is recognised in profit or loss.

Foreign exchange forward contracts

At 31 December 2018, the Group has outstanding foreign exchange forward contracts with an aggregate notional amount of US$15,800,000 that require the Group to sell US$ for RMB at exchange rates ranging from RMB6.4189 to RMB6.8760 for US$1 with maturity periods up to three months from the end of the reporting period.

The net fair value loss of HK$43,837,000 is recognised in profit or loss.

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36. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

Foreign currency and interest rate swap

The amount represents the fair value of foreign currency and interest rate swap contracts to swap US$ denominated bank borrowings with aggregate notional amount of US$30,391,093 to HK$230,000,000 and the interest rate of the loans from US$ LIBOR plus a spread of 1.33% to HK$ HIBOR plus a spread of 1.43%. The contract amounting to HK$190,000,000 was early terminated on 26 March 2018. The remaining contract will be terminated on 29 August 2019.

The net fair value gain of HK$776,000 (2017: fair value loss of HK$831,000) is recognised in profit or loss.

The above derivatives are classified as financial assets/liabilities at FVTPL. Their fair values are determined based on the valuation carried out by financial institutions, which are measured using the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and quoted forward exchange rates at the end of the reporting period. Details are set out in note 42.

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37. BANK BORROWINGS AND BANK OVERDRAFTS

	2018 HK$'000	2017 HK$'000
Bank borrowings (including discounted bills with full recourse)	**1,380,858**	1,387,004
Analysed as:		
Secured	**775,262**	53,420
Unsecured	**605,596**	1,333,584
	1,380,858	1,387,004
Carrying amount of bank borrowings repayable based on scheduled repayment dates set out in the loan agreements:		
Within one year	**77,959**	123,957
More than one year, but not exceeding two years	**110,000**	–
More than two years, but not exceeding five years	**417,500**	–
More than five years	**165,000**	–
	770,459	123,957
Carrying amount of bank borrowings that contain a repayment on demand clause based on scheduled repayment dates set out in loan agreements:		
Within one year	**590,399**	1,109,297
More than one year, but not exceeding two years	**10,000**	130,000
More than two years, but not exceeding five years	**10,000**	23,750
	610,399	1,263,047
	1,380,858	1,387,004
Less: Amount due within one year shown under current liabilities	**688,358**	1,387,004
Amount shown under non-current liabilities	**692,500**	–

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

Included in the carrying amount is HK$425,000,000 (2017: HK$625,000,000) bank borrowings (defined as "hedging loans" by the directors of the Company) that are repayable within one year. The Group undertakes that structured deposits, short-term bank deposits and bank balances with an aggregate carrying amount of HK$432,276,000 (2017: short-term bank deposits of HK$490,131,000) have to be maintained with the respective banks during the life of these hedging loans.

The ranges of effective interest rates (which are same as the contracted interest rates) on the Group's variable-rate bank borrowings and bank overdrafts are 1.72% – 4.8% (2017: 1.64% – 4.28%).

During the year, the Group discounted bills receivable with recourse in aggregated amount of HK$84,563,000 (2017: HK$69,411,000) to banks for short-term financing. At 31 December 2018, the associated borrowings amounted to HK$4,803,000 (2017: HK$4,303,000). The relevant cash flows of these borrowings are presented as operating cash flows in the consolidated statement of cash flows as management of the Group considers the cash flows are, in substance, the receipts from trade customers.

38. PROVISION FOR LONG SERVICE PAYMENTS

	HK$'000
At 1 January 2017	3,483
Amount utilised during the year	(624)
At 31 December 2017	2,859
Amount utilised during the year	**(56)**
At 31 December 2018	**2,803**

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

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39. SHARE CAPITAL

	Number of shares '000	Amount HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2017, 31 December 2017 and 31 December 2018	1,000,000	100,000
Issued and fully paid:		
At 1 January 2017, 31 December 2017 and 31 December 2018	305,616	30,562

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

40. SHARE-BASED PAYMENTS

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed on 30 May 2012 for the primary purpose of providing incentives to directors and eligible employees. Unless otherwise terminated or amended, the Share Option Scheme will remain in force for 10 years ending 29 May 2022. Under the Share Option Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

At 31 December 2018, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 5,000,000 (2017: nil), which if exercised in full representing 1.64% (2017: nil) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 30% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Each grant of options to a director, chief executive or substantial shareholder of the Company, or any of their respective associates, must be approved by independent non-executive directors of the Company. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, and with an aggregate value (base on the price of the Company's shares at the date of grant) in excess of HK$5 million, without prior approval from the Company's shareholders. The offer of a grant of share option may be accepted within 28 days from the date of the offer with no authorization being payable by the grantee. The exercisable period of the share options granted is determinable by the directors of the Company, but no later than 10 years from the date of the offer.

50% of the options granted are exercisable from 3 December 2019 to 2 December 2028, while the remaining 50% of the options granted are exercisable from 3 December 2020 to 2 December 2028. The exercise price is determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of option; (ii) the average closing price of the shares in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of option; and (iii) the nominal value of the Company's share.

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40. SHARE-BASED PAYMENTS (Cont'd)

Details of options granted during the year are as follows:

Number of share options	Date of grant	Exercise period	Exercise price per share HK$	Fair value at grant date HK$
5,000,000	3 December 2018	3 December 2019 to 2 December 2028	1.76	0.3828

The fair value of the share options granted during the current year is calculated using the Binomial Option Pricing Model. The inputs into the model are as follows:

Weighted average share price	HK$1.76
Exercise price	HK$1.76
Validity period	10 years
Risk-free rate	2.31%
Expected volatility	25.56%
Expected dividend yield	3.41%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous two years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised an expense of HK$80,000 (2017: nil) for the year ended 31 December 2018 in relation to share options granted by the Company.

The Binomial Option Pricing Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

41. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the bank borrowings disclosed in note 37, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

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

42. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Equity instruments at FVTOCI	**19,493**	–
Financial assets mandatorily measured to FVTPL	**300,444**	–
Financial assets at amortised cost	**1,190,306**	–
Loans and receivables (including cash and cash equivalents)	**–**	1,488,067
AFS investments	**–**	675
Financial liabilities		
Derivative financial instruments	**8,498**	5,219
Amortised cost	**1,807,292**	1,848,162

Financial risk management objectives and policies

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

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42. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk

Currency risk

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

	Assets		Liabilities	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
HK$ against RMB	**74,478**	74,235	**–**	–
US$ against RMB	**91,668**	96,109	**35,699**	184,091
RMB against HK$	**21,706**	76,084	**8,429**	41,553

The principal and notional amounts of derivative financial instruments which expose the Group to foreign currency risk at the end of the reporting period are disclosed in note 36.

In addition, the Group is also exposed to foreign currency risks arising from foreign currency foward contracts and foreign currency swap which are not subject to cash flow hedges at the end of the reporting period. Management of the Group monitors foreign exchange exposure and considers hedging significant foreign exchange exposure should the need arise.

42. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

Currency risk (Cont'd)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2017: 5%) strengthening in the group entities' functional currencies against the relevant foreign currencies except for the Group's exposure of US$ relative to HK$ since the directors of the Company consider HK$ is pegged to US$ and the exposure related to US$ is insignificant. 5% (2017: 5%) is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, foreign exchange forward contracts and foreign currency swap, and adjusts their translation at the end of the reporting period for a 5% (2017: 5%) change in foreign currency rates and forward exchange rates. The sensitivity analysis also includes inter-company balances. A positive/negative number below indicates an increase/decrease in post-tax profit for the year.

	Impact on HK$		Impact on US$		Impact on RMB	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Profit or loss	**(2,793)**	(2,784)	**3,753**	3,371	**(549)**	(1,438)

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

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42. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits. The Group is also exposed to cash flow interest rate risk relating to the variable-rate bank borrowings and derivative financial instruments, including dual currency interest rate swap and foreign currency interest rate swap, which mainly concentrated on fluctuation of HIBOR and LIBOR. Management of the Group monitors interest rate exposure and considers hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. The analysis includes the variable-rate bank borrowings, assuming that outstanding balances at the end of the reporting period are outstanding for the whole year, and interest rate swaps. A 50 basis points (2017: 50 basis points) increase or decrease represents management's assessment of the reasonably possible change in interest rate.

If interest rates had been 50 basis points (2017: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by approximately HK$5,745,000 (2017: HK$5,426,000).

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

42. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Price risk

The Group is exposed to equity price risk through its equity interests in private entity for long term strategic purposes which has been designated as financial assets at FVTOCI (2017: AFS investments measured at cost less impairment). The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis for unquoted equity investments with fair value measurement categorised within Level 3 is disclosed in "fair value measurements of financial instruments" section in this note.

Credit risk and impairment assessment

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the financial assets (including structured deposits, investment component of a life insurance contract and derivative financial instruments measured at FVTPL) whose carrying amounts best represent the maximum exposure to credit risk.

In order to minimise the credit risk on trade receivables, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assesses the potential customer's credit quality by internal credit rating and defines credit limits by customer. Credit limits attributed to customers are reviewed twice a year. The terms of payment of the major customers are under bank's letter of credit. Other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade receivables individually. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For other receivables and deposits and amounts due from joint ventures, the directors of the Company make individual assessment on the recoverability of these balances based on historical settlement records, past experience, and also available reasonable and supportive forward-looking information, to ensure that adequate provisions for impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank deposits is limited because the counterparties are reputable banks and financial institutions with high credit ratings assigned by international credit-rating agencies, and the Group has limited exposure to any single financial institution.

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42. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Credit risk and impairment assessment **(Cont'd)**

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets/ other items
Low risk	The counterparty has a low risk of default and does not have any past-due over 30 days amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

42. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Credit risk and impairment assessment (Cont'd)

The tables below detail the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

2018	*Notes*	**External credit rating**	**12-month or lifetime ECL**	**Gross carrying amount** HK$'000
Financial assets at amortised cost				
Trade receivables (note i)	25	N/A	Lifetime ECL (not credit-impaired and assessed individually)	437,692
		N/A	Lifetime ECL (credit-impaired and assessed individually)	10,526
Other receivables and deposits (note ii)	27	N/A	12-month ECL (not credit-impaired and assessed individually)	18,411
Amounts due from joint ventures (note iii)	28	N/A	12-month ECL (not credit-impaired and assessed individually)	24,920
Short-term bank deposits (note iv)	30	Baa1-Aa3	12-month ECL (not credit-impaired and assessed individually)	55,203
Bank balances and cash (note iv)	31	Baa1-Aa3	12-month ECL (not credit impaired and assessed individually)	658,463

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42. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Credit risk and impairment assessment (Cont'd)

Notes:

(i) Trade receivables

The expected credit losses on trade receivables are estimated by reference to past due status of the individual debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtor, future economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

An estimated loss rate is applied to each group of internal credit rating. The loss rates are estimated taking into consideration past repayment histories and proxy to default rates published by international credit-rating agencies and are adjusted for forward-looking information that is available without undue cost or effort.

Internal credit rating	Average loss rate	Gross carrying amount	Impairment loss allowance
		HK$'000	HK$'000
Low risk	0.51%	382,930	1,947
Watch list	2.14%	24,219	518
Doubtful	6.28%	30,543	1,918
		437,692	4,383

Debtors which are credit impaired with gross carrying amounts of HK$10,526,000 are assessed individually, with impairment allowance HK$10,526,000 made.

Management of the Group also assessed the expected credit losses of trade receivables collectively based on forward-looking information that is available without undue cost and effort.

42. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Credit risk and impairment assessment (Cont'd)

Notes: (Cont'd)

(i) Trade receivables (Cont'd)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
At 31 December 2017 under HKAS 39	–	11,363	11,363
Adjustment upon application of HKFRS 9	3,079	–	3,079
At 1 January 2018 (restated)	3,079	11,363	14,442
Changes due to trade receivables recognised at 1 January 2018:			
Transfer to credit-impaired	(238)	238	–
Impairment loss recognised	–	3,677	3,677
Impairment loss reversed	(2,841)	(2,365)	(5,206)
Write off	–	(2,065)	(2,065)
New trade receivables originated	4,383	–	4,383
Exchange realignment	–	(322)	(322)
At 31 December 2018	4,383	10,526	14,909

The Group writes off a trade receivable when the amount is over two years past due, None of the trade receivables that have been written off is subject to enforcement activities.

(ii) Other receivables and deposits

The directors of the Company consider that there is no material credit risk inherent with the outstanding balance of other receivables and deposits.

(iii) Amounts due from joint ventures

Taking into account the amounts due from joint ventures are repayable on demand, the historical settlement records and the financial position of the joint ventures, the directors of the Company consider that the risk of default by these counterparties is low. Accordingly, no impairment loss has been recognised.

(iv) Bank balances and short-term bank deposits

The credit risk on bank balances and short-term bank deposits is limited because the counterparties are banks with high credit rating ranging from Baa1 to Aa3 assigned by international credit-rating agencies. At 31 December 2018, the Group performed an impairment assessment at 12m ECL by reference to information published by external credit rating agencies relating to probability of default and loss given default of the respective credit rating grades, and concluded that the risks of default of these counterparties are low. Accordingly, no impairment loss has been recognised.

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42. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management of the Group to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management of the Group monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. At 31 December 2018, the Group has available unutilised banking facilities of approximately HK$1,244 million (2017: HK$1,745 million).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks which choose to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

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

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

42. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

Liquidity tables

	Weighted average interest rate %	On demand or less than 3 months HK$'000	3 months to 1 year HK$'000	1 to 2 years HK$'000	2 to 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
2018								
Non-derivative financial liabilities								
Trade payables	–	306,413	–	–	–	–	306,413	306,413
Other payables	–	115,435	–	–	–	–	115,435	115,435
Amount due to a joint venture	–	3,984	–	–	–	–	3,984	3,984
Amount due to an associate	–	583	–	–	–	–	583	583
Bank borrowings	3.22	634,623	77,758	129,400	447,158	170,581	1,459,520	1,380,858
Obligations under finance leases	8.80	19	–	–	–	–	19	19
		1,061,057	77,758	129,400	447,158	170,581	1,885,954	1,807,292
Derivative – net settlement								
Derivative financial instruments		2,506	6	–	–	–	2,512	2,512
Derivative – gross settlement								
Derivative – financial settlement								
– inflow		(117,793)	–	–	–	–	(117,793)	(117,793)
– outflow		123,779	–	–	–	–	123,779	123,779
		5,986	–	–	–	–	5,986	5,986

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42. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

Liquidity tables (Cont'd)

	Weighted average interest rate %	On demand or less than 3 months HK$'000	3 months to 1 year HK$'000	1 to 2 years HK$'000	2 to 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
2017								
Non-derivative financial liabilities								
Trade payables	–	361,375	–	–	–	–	361,375	361,375
Other payables	–	98,411	–	–	–	–	98,411	98,411
Amount due to an associate	–	583	–	–	–	–	583	583
Bank overdrafts	2.58	694	–	–	–	–	694	694
Bank borrowings	2.58	1,286,256	102,032	–	–	–	1,388,288	1,387,004
Obligations under finance leases	8.80	20	60	20	–	–	100	95
		1,747,339	102,092	20	–	–	1,849,451	1,848,162
Derivative – net settlement								
Derivative financial instruments		1,121	3,364	734	–	–	5,219	5,219

42. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

Liquidity tables (Cont'd)

The table below is the maturity analysis of bank borrowings, which includes interest payments computed using contractual rates, based on agreed scheduled repayments set out in the loan agreements irrespective of whether the terms of the bank borrowings contain a repayment on demand clause. As a result, these amounts are greater than the amounts disclosed in the "on demand or less than 3 months" time band in the maturity analysis above. Taking into account the Group's financial position of the Group, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Weighted average interest rate	On demand or less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2018	**3.22**	**585,786**	**108,610**	**139,796**	**457,448**	**170,581**	**1,462,221**	**1,380,858**
31 December 2017	2.58	962,216	278,551	131,971	23,907	–	1,396,645	1,387,004

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

Fair value measurements of financial instruments

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

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

42. FINANCIAL INSTRUMENTS (Cont'd)

Fair value measurements of financial instruments (Cont'd)

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

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

Financial assets/ financial liabilities	Fair value as at 31 December 2018	Fair value as at 31 December 2017	Fair value hierarchy	Valuation technique(s) and key input(s)
Foreign exchange forward contracts	Liabilities – HK$5,986,000	–	Level 2	Valuation technique: Discounted cash flow. Key inputs: Forward exchange rates, contracted exchange rates and discount rates.
Dual currency interest rate swap	Liabilities – HK$2,506,000	Liability – HK$4,437,000	Level 2	Valuation technique: Discounted cash flow and option pricing model Key inputs: Forward interest rates, forward exchange rates, contracted interest rates and discount rates and HKBC Dynamic Term Premium Index 10 as published on Bloomberg Screen and its volatility
Foreign currency and interest rate swap	Liabilities – HK$6,000	Liability – HK$782,000	Level 2	Valuation technique: Discounted cash flow and option pricing model. Key inputs: Forward interest rates, forward exchange rates, contracted interest rates, discount rate and volatility of exchange rate of HK$ vs US$
Structured deposits	Assets – HK$269,435,000	–	Level 2	Valuation technique: Discounted cash flow and option pricing model. Key inputs: Forward interest rates, forward exchange rates, contracted interest rates, contracted exchange rates and volatility of exchange rate and interest rate
Investment component of a life insurance contract (note i)	Assets – HK$31,009,000	N/A	Level 3	Valuation techniques: Discounted cash flows Key inputs: Expected cashflows and discount rates
Equity instruments at FVTOCI (note ii)	Assets – HK$19,493,000	N/A	Level 3	Valuation techniques: market approach. Key inputs: Median/average of the EV-to-EBITDA ratio base on publicly available information including Bloomberg database and the financial statements and announcements of respective comparable companies, marketability discount

Notes:

(i) The return of the investment is at the discretion of the insurer and the surrender charge is for termination of both the insurance and investment components. Accordingly, the directors of the Company consider the account value as at 31 December 2018 as an appropriate estimate of fair value. Key unobservable inputs used include expected cashflows and discount rates. The higher the expected cashflows, the higher the fair value. The higher the discount rates, the lower the fair value. Fair value gain of HK$1,192,000 is recognised in profit or loss for the year ended 31 December 2018.

(ii) As disclosed in note 20, the Group's investment in equity interest in a private entity located in BVI was previously classified as AFS investments at cost less impairment, and reclassified to equity instruments at FVTOCI measured ippon application of HKFRS 9. The fair value of the investments is measured using a valuation technique with signification unobservable inputs, and hence being classified as Level 3 of the fair value hierarchy. Key unobservable inputs used include marketability discount of 25%. The higher the marketability discount, the lower the fair value. Fair value loss of HK$4,973,000 is recognised in other comprehensive income for the year ended 31 December 2018.

There is no transfer amongst level 1, 2 and 3 for both years.

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42. FINANCIAL INSTRUMENTS (Cont'd)

Fair value measurements of financial instruments (Cont'd)

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (Cont'd)

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

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

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

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

	Carrying amounts of financial assets in the consolidated statement of financial position – Bank balances HK$'000	Related amounts not set off in the consolidated statement of financial position – derivative financial liabilities HK$'000	Net amount HK$'000
At 31 December 2018			
Bank A	**99**	**(99)**	**–**
Bank B	**265**	**(265)**	**–**
Total	**364**	**(364)**	**–**
At 31 December 2017			
Bank A	83	(83)	–
Bank B	354	(354)	–
Total	437	(437)	–

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

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

	Carrying amounts of financial liabilities presented under "Derivative financial instruments" in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position – financial assets HK$'000	Net amount HK$'000
At 31 December 2018			
Bank A	**(2,549)**	**99**	**(2,450)**
Bank B	**(1,774)**	**265**	**(1,509)**
Bank C	**(2,087)**	**–**	**(2,087)**
Bank D	**(2,088)**	**–**	**(2,088)**
Total	**(8,498)**	**364**	**(8,134)**
At 31 December 2017			
Bank A	(4,437)	83	(4,354)
Bank B	(782)	354	(428)
Total	(5,219)	437	(4,782)

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

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

44. PLEDGE OF ASSETS

At the end of the reporting period, in addition to the bills discounted to banks as disclosed in note 26 and properties pledged to bank as disclosed in notes 15 and 17, the Group has pledged the following assets to secure credit facilities granted to the Group:

	2018 HK$'000	2017 HK$'000
Trade receivables	**7,470**	14,872

45. OPERATING LEASES

(a) The Group as lessor

The Group leases its investment properties under operating lease arrangements with lease term ranging from one to ten years.

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

	2018 HK$'000	2017 HK$'000
Within one year	**42,071**	29,253
In the second to fifth year, inclusive	**94,567**	79,994
Over five years	**9,171**	25,428
	145,809	134,675

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45. OPERATING LEASES (Cont'd)

(b) The Group as lessee

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

	2018 HK$'000	2017 HK$'000
Within one year	**13,748**	15,416
In the second to fifth year, inclusive	**20,927**	15,361
	34,675	30,777

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

46. CAPITAL COMMITMENTS

	2018 HK$'000	2017 HK$'000
Capital expenditure in respect of the property, plant and equipment and investment properties contracted for but not provided for in the consolidated financial statements	**235,674**	152,619

47. RETIREMENT BENEFITS SCHEMES

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

48. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	2018 HK$'000	2017 HK$'000
Cash and cash equivalents	**658,463**	502,663
Gross debts	**(1,380,877)**	(1,387,099)
	(722,414)	(884,436)

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

	Cash and cash equivalents HK$'000	Dividend payable HK$'000	Bank borrowings *(note 37)* HK$'000	Obligations under finance leases HK$'000	Total HK$'000
At 1 January 2018	**502,663**	**–**	**(1,387,004)**	**(95)**	**(884,436)**
Net cash flows	**194,278**	**18,336**	**42,826**	**80**	**255,520**
Cash inflow from discounted bills with recourse	**–**	**–**	**(84,563)**	**–**	**(84,563)**
Finance costs *(note 8)*	**–**	**–**	**(45,119)**	**(6)**	**(45,125)**
Dividends declared	**–**	**(18,336)**	**–**	**–**	**(18,336)**
Non-cash movement of discounted bills with recourse	**–**	**–**	**89,499**	**–**	**89,499**
Exchange realignment	**(38,478)**	**–**	**3,503**	**2**	**(34,973)**
At 31 December 2018	**658,463**	**–**	**(1,380,858)**	**(19)**	**(722,414)**
At 1 January 2017	330,195	–	(1,215,433)	(148)	(885,386)
Net cash flows	141,458	18,336	(137,856)	78	22,016
Cash inflow from discounted bills with recourse	–	–	(69,411)	–	(69,411)
Finance costs *(note 8)*	–	–	(35,733)	(12)	(35,745)
Dividends declared	–	(18,336)	–	–	(18,336)
Non-cash movement of discounted bills with recourse	–	–	75,022	–	75,022
Exchange realignment	31,010	–	(3,593)	(13)	27,404
At 31 December 2017	502,663	–	(1,387,004)	(95)	(884,436)

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49. RELATED PARTY TRANSACTIONS

Apart from amounts due from and to joint ventures and amount due to an associate as set out in notes 28 and 34, respectively, the Group had the following transactions with related parties during the year:

	2018 HK$'000	2017 HK$'000
Purchases of raw materials and finished goods from joint ventures	**11,949**	8,950
Sales of raw materials and finished goods to joint ventures	**–**	1

Compensation of key management personnel

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

50. CONTINGENT LIABILITIES

In addition to the tax audit on certain group companies and the ongoing enquiry of customs duty as disclosed in notes 10 and 27, respectively, the Group has the following contingent liabilities:

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

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51. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group		Principal activities
			2018 %	2017 %	
Angel Star Investment Limited	Hong Kong	HK$2 Ordinary HK$2 Non-voting deferred	**65**	65	Holding of trademarks
August Silk Inc.	USA	US$10	**100**	100	Marketing and garment trading
Bramead International Inc.	BVI/USA	US$1	**100**	100	Holding of trademarks
Da Fu Li Co., Limited	Taiwan	New Taiwan dollars 300,000	**65**	65	Garment trading
Dongguan Dalisheng Fashion Co., Ltd. *(note)*	PRC	HK$28,000,000	**100**	100	Garment manufacturing
Dongguan Yihao Fashions Limited *(note)*	PRC	HK$20,500,000	**100**	100	Garment manufacturing
Eminent Garment (Cambodia) Limited	Cambodia	US$250,000	**100**	100	Garment manufacturing
Eminent Garment Limited	Hong Kong	HK$2	**100**	100	Garment trading
Hangzhou Fortune Property Co., Ltd. *(note)*	PRC	US$7,500,000	**100**	100	Property holding
杭州譽瑞資產管理有限公司	PRC	RMB1,000,000	**100**	100	Property development
High Fashion Accessories and Gifts Limited	Hong Kong	HK$2	**100**	100	Accessories trading
High Fashion Apparel Limited	BVI/Hong Kong	US$1,000	**100**	100	Investment holding

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51. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group		Principal activities
			2018 %	2017 %	
High Fashion (China) Co., Ltd. *(note)*	PRC	US$116,865,779	**100**	100	Dyeing, printing and sandwashing of fabrics and garment manufacturing
High Fashion Garments Company Limited	Hong Kong	HK$2 ordinary HK$10,000,000 Non-voting deferred	**100**	100	Garment trading
High Fashion Garments, Inc.	USA	US$5,000	**100**	100	Marketing and garment trading
High Fashion Garments Macao Commercial Offshore Limited	Macau	Macau Pataca 100,000	**100**	100	Garment trading and agency
HFGML	Hong Kong	HK$20 Ordinary HK$20 Non-voting deferred	**100**	100	Provision of management services
High Fashion International (USA) Inc.	USA	US$1,800	**100**	100	Investment holding
High Fashion Knit Company Limited	Hong Kong	HK$2	**100**	100	Garment trading
High Fashion Knitwear Company Limited	Hong Kong	HK$2 Ordinary HK$1,000,000 Non-voting deferred	**100**	100	Garment trading
High Fashion Knitwear Overseas Limited	Hong Kong	HK$2 Ordinary HK$10,000 Non-voting deferred	**100**	100	Garment trading

51. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group 2018 %	2017 %	Principal activities
High Fashion (Shenzhen) Supply Chain Management Co., Ltd. *(note)*	PRC	RMB3,000,000	**100**	100	Provision of management services
High Fashion Silk *(note)*	PRC	US$50,000,000	**100**	100	Silk weaving
High Fashion (UK) Limited	United Kingdom	British pounds 20,000	**70.5**	70.5	Garment trading
Navigation Limited	BVI/Hong Kong	US$1	**100**	100	Investment holding
Rosso Amaranto S.r.l	Italy	EUR100,000	**80**	80	Trading of fabrics
Shenzhen Daliyu Fashion Co. Ltd. *(note)*	PRC	RMB1,000,000	**100**	100	Garment retailing
Shenzhen Huijian Fashion Co., Ltd *(note)*	PRC	RMB10,000,000	**65**	65	Garment retailing
Stage II Limited	Hong Kong	HK$800,000	**65**	65	Garment trading
Super Topping Limited	Hong Kong	HK$2	**100**	100	Provision of management services
The King Garment Limited	Hong Kong	HK$2	**100**	100	Garment trading

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51. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group		Principal activities
			2018 %	2017 %	
Theme Fashion (Singapore) Pte. Ltd.	Singapore	Singapore dollars 100,000	**65**	65	Garment retailing
Theme Garments (Shenzhen) Company Limited *(note)*	PRC	RMB60,000,000	**100**	100	Garment retailing
Theme International Holdings (B.V.I.) Limited	BVI	US$10,001	**100**	100	Investment holding
新昌達利置業有限公司 *(note)*	PRC	RMB5,000,000	**100**	100	Property development
Win One Retailing (Singapore) Pte. Ltd. *(note)*	Singapore	Singapore dollars 100,000	**100**	100	Garment retailing
Zhejiang High Fashion Culture Creativity Co., Ltd. *(note)*	PRC	US$20,000,000	**100**	100	Cultural complex development

Note: These companies are registered as a wholly-owned foreign enterprise.

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

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

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51. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

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

Principal activities	Place of incorporation or registration/operations	Number of subsidiaries	
		2018	2017
Investment holding	Hong Kong	18	14
	BVI	5	3
		23	17
Inactive	Hong Kong	19	16
	PRC	9	8
	BVI	12	12
	USA	1	1
		41	37
		64	54

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

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

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52. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 HK$'000	2017 HK$'000
Non-current asset		
Investment in a subsidiary	**426,761**	426,671
Current assets		
Prepayment	**149**	149
Amount due from a subsidiary	**36,937**	27,598
Bank balances and cash	**141**	140
	37,227	27,887
Current liabilities		
Other payables and accruals	**145**	112
Net current assets	**37,082**	27,775
	463,843	454,446
Capital and reserves		
Share capital	**30,562**	30,562
Reserves	**433,281**	423,884
Total equity	**463,843**	454,446

Movements in the Company's reserves

	Share premium HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Contribution surplus HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2017	287,656	16,520	8,511	101,171	–	10,023	423,881
Profit for the year	–	–	–	–	–	18,339	18,339
Dividends declared and paid in cash	–	–	–	–	–	(18,336)	(18,336)
At 31 December 2017	**287,656**	**16,520**	**8,511**	**101,171**	**–**	**10,026**	**423,884**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**27,653**	**27,653**
Dividends declared and paid in cash	**–**	**–**	**–**	**–**	**–**	**(18,336)**	**(18,336)**
Recognition of equity settled share – based payments	**–**	**–**	**–**	**–**	**80**	**–**	**80**
At 31 December 2018	**287,656**	**16,520**	**8,511**	**101,171**	**80**	**19,343**	**433,281**

At 1 January 2018, the Company applied the new and amendments to HKFRSs that are mandatorily effective for the current year, including HKFRS 9 and HKFRS 15, and there was no material impact on the financial statements.

Financial Summary

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

RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**3,074,745**	2,732,974	2,422,545	2,678,240	2,864,787
Profit before taxation	**29,748**	88,601	85,232	57,011	123,241
Taxation	**8,920**	(45,926)	(43,968)	(13,768)	(30,900)
Profit for the year	**38,668**	42,675	41,264	43,243	92,341
Profit for the year attributable to:					
Owners of the Company	**43,640**	41,976	43,277	46,424	101,468
Non-controlling interests	**(4,972)**	699	(2,013)	(3,181)	(9,127)
	38,668	42,675	41,264	43,243	92,341

ASSETS AND LIABILITIES

	At 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**5,083,752**	4,899,757	4,305,881	4,610,768	5,706,923
Total liabilities	**(2,589,515)**	(2,379,649)	(2,142,725)	(2,369,566)	(3,195,392)
	2,494,237	2,520,108	2,163,156	2,241,202	2,511,531

Note: The comparative information has not been restated on initial application of HKFRS 9 and HKFRS 15.

Schedule of Principal Investment Properties

Particulars	Approximate Gross Floor Area (square meters)	Lease Term	Usage	Stage of Completion	Group's interest (%)
G/F-10/F, 13/F, High Fashion Centre, 1-11 Kwai Hei Street, Kwai Chung, New Territories, Hong Kong. High Fashion Centre *(note i)*	16,777	Medium term	Commercial/Office	Under construction	100%
Shennan Road, Che Gong Miao, Fu Tian District, Shenzhen. Hanggang Fuchun Commercial Building 12units on L1 & L2.	3,667	Long term	Commercial/Office	Completed	100%
8, Qiannong Road (E), Xiaoshan Economic and Technological Development Zone, Hangzhou, Zhejiang Province. *(note ii)*	59,209	Medium term	Industrial	Completed	100%
109, Renmin East Road, Xinchang County, Shaoxing, Zhejiang Province. 達利廣場	33,252	Medium term	Commercial	Completed	100%
Jiangbin East Road, Xinchang County, Shaoxing, Zhejiang Province. 達利大廈	26,883	Long term	Commercial/Office	Completed	100%
Southeast intersection of Yingchun South Road and 320 National Road, Chengxin Zone, Tonglu County, Zhejiang Province. (land lot no. 1&2)	56,632	Medium term	Cultural and tourist attraction	Under development	100%
Qianjiang farm, Qianjiang road south, Bridge south, Xiaoshan, Hangzhou, Zhejiang Province.	84,001	Long term	Industrial	Under development	100%
Yingchun South Road and 320 National Road, Tonglu County, Zhejiang Province. (land lot no. 4)	34,013	Medium term	Commercial	Under development	100%
Unit 1 Block 17, 618 Ding Yuan Lu Songjiang Qu, Shanghai, China	3,795	Medium term	Industrial	Completed	100%

Note:

(i) 11/F-12/F of High Fashion Centre serving as the Group's head office not included in the above.

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

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Professor Yeung Kwok Wing
Mr. Hung Ka Hai, Clement

Independent Non-executive Directors

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

AUDIT COMMITTEE

Mr. Leung Hok Lim *(Chairman)*
Professor Yeung Kwok Wing
Mr. Hung Ka Hai, Clement (Appointed on 29 March 2019)
Mr. Woo King Wai
Mr. Wong Shiu Hoi, Peter

REMUNERATION COMMITTEE

Mr. Wong Shiu Hoi, Peter *(Chairman)*
Professor Yeung Kwok Wing
Mr. Woo King Wai
Mr. Leung Hok Lim
Mr. Lam Gee Yu, Will (Appointed on 29 March 2019)

NOMINATION COMMITTEE

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

RISK MANAGEMENT COMMITTEE

Mr. Wong Shiu Hoi, Peter *(Chairman)*
Mr. Leung Hok Lim
Mr. Lam Gee Yu, Will
Mr. Li Wa Tat, Benedict

COMPANY SECRETARY

Ms. Yau Oi Kwan Angela

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISER IN HONG KONG

Wilkinson & Grist

LEGAL ADVISER ON BERMUDA LAW

Conyers Dill & Pearman

REGISTERED OFFICE

Clarendon House, 2 Church Street,
Hamilton HM11, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

22/F., CITIC Telecom Tower,
93 Kwai Fuk Road, Kwai Chung,
New Territories, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House, 2 Church Street,
Hamilton HM11, Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

Shareholders & Investor Relation Information

RESULTS ANNOUNCEMENT:

2018 Final	29 March 2019
2018 Interim	30 August 2018
2017 Final	27 March 2018
2017 Interim	29 August 2017

2019 ANNUAL GENERAL MEETING

6 June 2019

CLOSURE OF REGISTER OF MEMBERS

Events	Book close period *(both days inclusive)*
For attendance to 2019 Annual General Meeting	4 June 2019 to 6 June 2019
For entitlement to the proposed final dividend	13 June 2019 to 14 June 2019

DIVIDENDS:

2018 Final	3 HK cents per share payable on or about 28 June 2019
2018 Interim	3 HK cents per share payable on 16 October 2018
2017 Final	3 HK cents per share payable on 29 June 2018
2017 Interim	3 HK cents per share paid on 16 October 2017

AUTHORISED SHARES

1,000,000,000 ordinary shares

ISSUED SHARES

305,615,420 ordinary shares (as at 31 December 2018)

BOARD LOT

2,000 shares

FINANCIAL YEAR END

December 31

STOCK CODE

608

COMPANY WEBSITE

www.highfashion.com.hk

LISTING DATE

4 August 1992