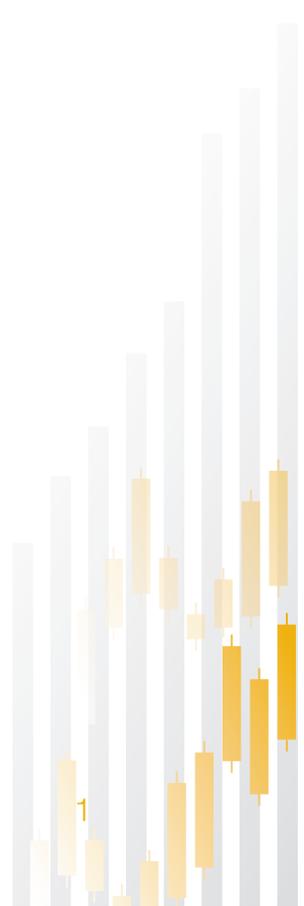


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FINANCIAL HIGHLIGHTS

Key Financial Results

	Year ended 31st December,					
	2017 HK\$'000	2016 HK\$'000	Changes +/-%	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000
Turnover	413,861	467,138	-11.4%	961,072	1,016,283	1,401,667
Gross (Loss) Profit	(67,443)	(328,546)	-79.5%	(499,932)	72,256	322,923
(Loss) Profit for the year	(102,247)	(349,768)	70.8%	(951,129)	(184,258)	59,455
(Loss) earnings per share (in HK dollars)	(0.02)	(0.46)	-95.6%	(1.55)	(0.42)	0.13

Financial Ratios

	Year ended 31st December,				
	2017	2016	2015	2014	2013
Profitability ratios:					
Gross margin (%)	n/a	n/a	n/a	7.1	23.0
Net margin (%)	n/a	n/a	n/a	n/a	4.2
Liquidity ratios:					
Current ratio (times)	0.59	0.40	0.61	1.03	1.13
Stock turnover (days) (Note 1)	22	21	101	398	298
Debtors turnover (days) (Note 2)	28	40	54	87	155
Creditors turnover (days) (Note 3)	19	9	16	25	28
Capital adequacy ratio:					
Gearing ratio (%) (Note 4)	53.3	77.1	58.3	43.1	43.5

Notes:

1. The number of stock turnover days is equal to inventory at the end of the year divided by the cost of sales for the year and then multiplied by 365 days.
2. The number of debtors' turnover days is equal to trade and bills receivables at the end of the year divided by the sales of the year and then multiplied by 365 days.
3. The number of creditors' turnover days is equal to trade and bills payable at the end of the year divided by the cost of sales for the year and then multiplied by 365 days.
4. The gearing ratio is equal to total bank and other borrowings at the end of the year divided by total assets at the end of the year.

EXECUTIVE DIRECTORS

Mr. POON Sum (*Chairman*)
(appointed on 19th April, 2017)
Mr. CHEUNG Tat Chung
(*Chief Executive Officer*)
Mr. LO Ping
(retired on 23rd May, 2017)
Mr. ZHENG Jun
(retired on 23rd May, 2017)

NON-EXECUTIVE DIRECTORS

Mr. CHUI Chi Yun, Robert
(retired on 23rd May, 2017)
Mr. ZHAO Xu
(retired on 12th August, 2017)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN Shu Kin
Dr. TSE Kwok Sang
Mr. CHIU Wai Piu

COMPANY SECRETARY

Ms. HUI Wai Man, Shirley

MEMBERS OF AUDIT COMMITTEE, REMUNERATION COMMITTEE, NOMINATION COMMITTEE AND CORPORATE GOVERNANCE COMMITTEE

Mr. CHAN Shu Kin
Dr. TSE Kwok Sang
Mr. CHIU Wai Piu

AUTHORIZED REPRESENTATIVES

Mr. POON Sum
Ms. HUI Wai Man, Shirley

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

9/F., 822 Lai Chi Kok Road
Cheung Sha Wan
Kowloon
Hong Kong

REGISTERED OFFICE

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

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Bank of China (Hong Kong) Limited
Shanghai Commercial Bank

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd floor
24 Shedden Road
P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Shops 1712-16, 17/F
Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISOR AS TO HONG KONG LAWS

Raymond Siu & Lawyers

WEBSITE

www.gtiholdings.com.hk
www.irasia.com/listco/hk/gtiholdings/index.htm

STOCK CODE

3344

CHAIRMAN'S STATEMENT

In 2017, the global economy was greatly affected by changes in the political environment of the EU and the US. Especially, after taking office, the acts of the U.S. President Donald Trump, who pledges "America first", have casted shadow on the global economy. The instability in many currencies triggered by the US dollar has to a considerable extent affected the development of commerce and industries. As understood, many enterprises in our industry have been impacted causing them to reduce or even suspend their production. As the major markets of the Company cover EU member countries such as the UK and Spain, North American countries including Canada, the Company is likely to be affected and faced with a challenging business environment.

During the past year, benefited from the comprehensive internal audit and adjustment of corporate structure and production structure initiated by the Board last year, the plants and workforce were fully optimised with weakness eliminated and strength retained and the Company successfully reduced its cost and expenses by over 50%. Furthermore, its loss decreased by 70%, and total assets less current liabilities has become positive from negative in the previous year following the completion of the debt restructuring. Our production capability has been gradually enhanced. Looking into this year, while ensuring the fundamental operations, we will actively strengthen product research and development, enhance our capability for handling orders with higher profit margin and develop high-end and high-price products. The Board believes that the China market is huge and promising and the Company will be dedicated to increasing sales and marketing in Mainland China.

The petroleum trading project, in which the Group holds 51% equity interest, is principally engaged in international trading and bunkering business. It has business along the coast of Southeast Asia and is gradually exploring larger markets and securing more customers. Its stable market and long-term customers can provide the Company with more stable income. Although the international energy market has been unstable for a long time and the prices of gas and oil fluctuate, the oil price has gradually climbed back to the current level of US\$60-70 per barrel from the range of US\$40-50 per barrel in 2016. The Board believes that the recovery of oil price will bring more profit to the Company.

The asset management company, in which the Company holds 71% equity interest, is licensed by the Hong Kong Securities and Futures Commission (SFC) to conduct type 9 regulated activities of the Securities and Futures Ordinance. The business of the asset management company mainly includes setting up and management of funds for clients in return for management fees, subscription fees, fund performance fees and redemption fees as revenue to the Company. The asset management company has also established an equity investment and fund management company in Qianhai district, Shenzhen, and such company has been approved by the Financial Development and Services Office of the People's Government of Shenzhen Municipality (深圳市人民政府金融發展服務辦公室) to raise funds onshore and offshore, set up funds and receive management fees through the channel of Qualified Foreign Limited Partner (QFLP), which will bring considerable revenue for the Company.

Looking into the future, although the textile industry has remained sluggish for a few years, the business has improved significantly last year under the effort of all staff members. The Directors consider that market opportunities will re-emerge in the future, and we will strive to maintain the sustainability and stability of the business. The Group will continue exploring the development of diversified businesses with good prospect to offset the impact of decline in the textile business and bring more profit to the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

Business Review

We are pleased to report the audited results of the Group for the year ended 31st December, 2017. The Group's consolidated revenue decreased by approximately 11.4% to approximately HK\$413.9 million, while the net loss further decreased by approximately 70.8% from approximately HK\$349.8 million in 2016 to approximately HK\$102.2 million for the year ended 31st December, 2017. Other than the write-down of inventories and the impairment loss recognised in respect of property, plant and equipment and prepaid lease payments of approximately HK\$16.5 million and HK\$32.5 million respectively, the impairment losses recognised on trade and other receivables of approximately HK\$4.7 million, the impairment loss recognised on available-for-sale investments of approximately HK\$15.4 million, the gain on disposal of subsidiaries of approximately HK\$72.4 million and gain on debt restructuring of approximately HK\$166.4 million, the loss contributed by the major business operations was approximately HK\$271.9 million, representing a decrease of the loss contributed by the core business operations by approximately 22.5% compared to the 2016.

Textile Business

Over the past few years, there was a significant increase in loss of the Group due to the decrease in revenue in textile business given the unfavourable economic environment of textile industry as the demand for textile products remained sluggish while the gradual increase in price of cotton in the PRC increased the cost of the products, and severe cash flow situation faced by the Group. The Group's decrease in revenue in textile business by approximately 42.6% as compared with 2016 was mainly due to the continuing sluggish demand in domestic and overseas markets and the disposal of some PRC subsidiaries engaged in textile business. Such decrease in revenue was further adversely affected by the tight cash flow position faced by the Group. The decrease in demand of the products resulted in the reduction of average selling price of the Group's textile products. The continuing intensified international competition and the rapid development of textile products in neighbouring countries such as Bangladesh also led to the decrease in the number of orders received from European countries during the year of 2017. In addition, the cash flow problem faced by the Group also affected the competitiveness of the Group which in turn affected the number of orders and operating performance of the textile business.

Although the Group successfully entered into the debt restructuring deed with certain banks on 9th March, 2017 following the breach of certain loan covenants of certain bank facilities and failure to make repayment of certain bank borrowings when they became due in 2015, the Group did not have any other banking facilities in Hong Kong throughout the year of 2017, the absence of which also severely affected the operation of the textile business of the Group.

On the other hand, even though the revenue decreased during the year, as a result of implementation of stringent cost control and cost saving measures such as reducing the number of employees from approximately 4,000 employees at the beginning of 2017 to approximately 2,500 employees at the end of 2017, the gross loss was further reduced in 2017 compared to that of 2016. Besides, the disposal of some loss-making PRC subsidiaries in early 2017 also reduced the gross loss of the textile business.

MANAGEMENT DISCUSSION AND ANALYSIS

Trading of petroleum

In order to broaden and diversify the business of the Group, the Group commenced the trading of petroleum in late 2016. During the year of 2017, the revenue contributed by trading of petroleum was approximately HK\$144.8 million, representing a substantial increase by more than 4,387 times from approximately HK\$33,000 in 2016. In addition to the trading of petroleum in overseas markets, the commencement of trading of petroleum in Hong Kong in 2017, which accounted for approximately 99.3% of the revenue of trading of petroleum business, was the major reason for the substantial increase in the revenue from trading of petroleum business.

Provision of financial services

During early 2017, the Group acquired an asset management company in Hong Kong which is a licensed corporation authorized to carry out Type 9 (asset management) regulated activity under the Securities and Futures Ordinance in order to further diversify the business. The asset management company, through its PRC wholly-owned fund management company, successfully obtained the status of the qualified foreign limited partner in 2017 which enables the Group to commence the asset management service in the PRC so as to strengthen the development of asset management service in future.

Others

In mid-2017, the Group acquired a PRC company engaged in big data industry. However, despite the fast and strong development momentum of big data technologies and the promising prospects of the big data industry, considerable resources would have to be expended by the Group to successfully commercialise the products and develop this new line of business into a profitable one. The Group, therefore, after careful considerations, sold the said PRC company in the end of 2017 and reallocated the resources to capture new business opportunities in other areas which appeared to be more profitable than the big data industry in the near future.

Prospects

Looking forward, the global economy is still expected to be surrounded by the uncertainties of the softening consumer sentiments. We remained cautiously optimistic on the outlook of the textile and garment industry in view of its rigid demand for textile products as necessity goods. To cope with the severe business environment of the textile business, the Group will continue to improve the performance of its textile business through strict cost control measures and increasing diversity of products and securing more new customers. Besides, the Group will continue to focus on consolidating its business operations in Cambodia in 2018 in order to optimize the effectiveness and efficiency of the production in Cambodia. The Directors will also adopt more stringent cost control measures to further reduce the operating costs in the Cambodia factories, such as to further reduce the number of employees during 2018. The Company considers that the restructured operation in Cambodia will serve as a driving force of the textile business of the Group. At the same time, the Group will actively consider introducing more high-caliber personnel or business partners of the textile industry for further market development and enhancing performance of the textile business. Demand for middle and high-end

MANAGEMENT DISCUSSION AND ANALYSIS

textile products is expected to grow with the growing China domestic consumption and the Group will carefully consider the development of the China market. In addition, the Group is also looking for the opportunities and seeking for any business partners for possible development of branded textile products. In view of the years of experience in textile business and established strong production bases of the Group, the management considered that there would be advantage for the Group to develop the branded textile products.

On the other hand, in view of the fast growing revenue, the Group will continue to develop the trading of petroleum business in Hong Kong and in overseas markets during the year of 2018 and to broaden the customer and supplier base.

The commencement of asset management business in the PRC with the status of the qualified foreign limited partner in 2018 will be another major growth driver of the Group, especially in light of the booming financial market in the PRC during past several years.

The Group will continue to explore more business opportunities such as the possible acquisition of a company engaged in provision of RMB banknotes clearing services as announced by the Company on 6th October, 2017 in order to diversify the business and source of revenue.

In conclusion, the global economy will remain uncertain. However, after the successful implementation of the debt restructuring deed and business re-structuring of the Group, we believe that we are now in a much better position to grasp any market opportunities, to mitigate the impacts of the market's current volatility and to rejuvenate the performance of the Group so as to pursue a satisfactory return to our shareholders.

FINANCIAL REVIEW

Turnover

During 2017, the Group was principally engaged in the textile business with its major products of knitted sweaters and socks. The Group's total revenue from textile business for the year ended 31st December, 2017 was approximately HK\$268.3 million. Comparing with the year ended 31st December, 2016, the revenue dropped by approximately HK\$198.8 million, representing a decrease of approximately 42.6%.

The Group's turnover of the sweater business decreased by 22.9%, from approximately HK\$229.7 million for the year ended 31st December, 2016 to approximately HK\$177.0 million for the year ended 31st December, 2017, representing approximately 66.0% of the Group's turnover from textile business. Similar to previous year, the Group's sales contribution of sweater business was mainly from the orders from Europe and North America. The Group has continued to focus on the sales to overseas customers by utilizing the competitive advantages of low labour cost in our production plants in Cambodia and the advantage of import tax exemption for textile products to those European customers.

Trading of petroleum is another core business segment of the Group under rapid development and it represents approximately 35.0% of the Group's total turnover during the year ended 31st December, 2017. The major reasons for the substantial increase in turnover was mainly due to the commencement of trading of petroleum in Hong Kong which represented 99.3% of the turnover from trading of petroleum business in 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Sales

The cost of sales dropped by approximately 39.5% from approximately HK\$795.7 million in 2016 to approximately HK\$481.3 million in 2017. Apart from the write-down of inventories of approximately HK\$16.5 million (2016: approximately HK\$217.5 million), the drop in cost of sales, which was approximately 19.6%, was mainly due to the decrease in sales of textile products and the result of stringent cost control.

Gross loss and gross loss margin

The Group recorded a gross loss of approximately HK\$67.4 million (2016: HK\$328.5 million) for the year ended 31st December, 2017. Among the total gross loss, there was write-down of inventories of approximately HK\$16.5 million (2016: HK\$217.5 million) as at year end. Similar to 2016, the Group made provision on those inventories with age over nine months and those costs above the net realizable value. Although the Group adopted different measures to reduce the cost, with the continuous decrease in sales, the variable and fixed production costs are unable to be leveraged down substantially so as the sales volumes are not optimized in the production cycles. The Group will continuously endeavour to manage the gross profit margin by improving the operating efficiency as well as the utilization rate of the production facilities. On the other hand, the trading of petroleum recorded a gross profit of approximately HK\$3.1 million during 2017, representing a gross profit margin of approximately 2.1%.

Net loss margin

Except for the written-down of inventories as at year end of approximately HK\$16.5 million (2016: HK\$217.5 million), the impairment losses recognised in respect of property, plant and equipment and prepaid lease payments of approximately HK\$32.5 million (2016: HK\$59.1 million), impairment losses recognised on trade and other receivables of approximately HK\$4.7 million (2016: HK\$9.4 million), the impairment loss recognised on available-for-sale investments of approximately HK\$15.4 million (2016: HK\$42.1 million), the overall gain on disposal of subsidiaries of approximately HK\$72.4 million (2016: HK\$329.0 million) and the gain on the hair cut of the bank indebtedness of HK\$166.4 million, a net loss of approximately HK\$271.9 million (2016: HK\$350.7 million) was from the businesses of the Group.

If the orders from textile business can be further increased and resumed to the optimum level, it is anticipated that the overall margin for the year ending 31st December, 2018 will be improved. The Group will continuously strive for orders with better profit margin and use its best endeavours to overcome the challenges by sharpening its competitive edge. Besides, with the expansion of the trading of petroleum business with positive gross profit margin, the overall net profit margin for the year ending 31st December 2018 is expected to be further improved.

Selling and distribution costs

Selling and distribution costs mainly included transportation costs, accessories and packing expenses. For the year ended 31st December, 2017, the Group's selling and distribution costs was approximately HK\$23.2 million (2016: HK\$35.2 million), representing a drop by 34.1% as compared to that of 2016 which was mainly due to the drop in the revenue of textile business, and it accounted for approximately 5.6% (2016: 7.5%) of the Group's revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

Administrative expenses of approximately HK\$130.2 million (2016: HK\$146.6 million), representing a drop by 11.2% as compared to that of 2016, mainly consisted of staff cost, including employees' salary and welfare and redundancy costs, directors' remuneration, legal and professional fees and depreciation. The decrease during 2017 was mainly due to the disposal of some subsidiaries.

Finance costs

Finance costs mainly comprised interests on bank and other borrowings which increased to approximately HK\$95.2 million (2016: HK\$39.0 million) representing approximately 23.0% (2016: 8.3%) of the Group's revenue. The finance cost increased substantially as compared to 2016 as a result of the issuance of bonds with higher effective interest rates than before and the overdue interests charged pursuant to the debt restructuring deed signed on 9th March 2017.

Borrowings

As at 31st December, 2017, the Group had outstanding bank and other borrowings of approximately HK\$378.7 million (2016: HK\$679.4 million), in which approximately HK\$76.1 million (2016: HK\$20.9 million) was classified as falling due more than one year and the remaining balance of approximately HK\$302.6 million (2016: HK\$658.5 million) was classified as falling due within one year. The total bank and other borrowings decreased by approximately HK\$300.7 million when comparing with the balance as at 31st December, 2016 as a result of repayments and waiver of certain bank indebtedness pursuant to the debt restructuring deed dated 9th March 2017 during the year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December, 2017, the Group's cash and cash equivalents have increased slightly from approximately HK\$44.6 million to approximately HK\$62.3 million. The Group's total assets was approximately HK\$710.0 million (2016: HK\$881.7 million) as at year end.

More net cash was used for operating activities for the year ended 31st December, 2017 with the net effect of the operating loss, the decrease in inventories and trade receivables, increase in other receivables, deposits and prepayment and more net cash which was used for repayment of bank and other borrowings during the year. Moreover, less cash was generated from investing activities compared to that of 2016 mainly due to less cash generated from disposal of subsidiaries. However, subscriptions of 4,550,000,000 shares as detailed below with net proceeds of approximately HK\$359.2 million were completed on 28th April 2017. As a result, the net cash and cash equivalents increased to approximately HK\$62.3 million as at 31st December, 2017 from HK\$44.6 million last year.

On 6th January, 2017, the Company entered into four subscription agreements with four independent subscribers respectively, namely Gold Train Investments Limited, Mr. Yuan Dongjie, Mr. Chen Chiquan and Ms. Li Shuanghui pursuant to which those subscribers have conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue a maximum of 4,550,000,000 shares in total with an aggregate nominal amount of HK\$45,500,000 to the subscribers at the price of HK\$0.08 per share with gross proceeds of approximately HK\$364 million, details of which have been disclosed in the announcements of

MANAGEMENT DISCUSSION AND ANALYSIS

the Company dated 6th January, 2017, 17th March, 2017, 31st March, 2017 and 28th April 2017 and the circular of the Company dated 28th February, 2017. The subscriptions enabled the Company to raise equity funding to repay its outstanding liabilities, improve its financial position and mobilise further resources to develop the Group in the textile industry in Cambodia. Repayment of the loans can reduce the liability of the Group and hence minimising the threat of being demanded and sued by the banks for repayment, of which can enhance the sustainability of the Group's business. During the year, the net proceeds of approximately HK\$359.2 million were fully utilized as follows: (i) approximately HK\$255.7 million were used to repay the bank and other borrowings; (ii) approximately HK\$64.1 million were used for the working capital of textile business; (iii) approximately HK\$19.3 million were used for the working capital of trading of petroleum trading business; (iv) approximately HK\$3.1 million were used for the working capital of provision of financial services; and (v) approximately HK\$17.0 million were used for the other general working capital of the Group. The net price of the subscription was HK\$0.079 per share. The closing price of the shares on the date of the subscription agreements was HK\$1.00.

The Group will continue to meet its funding requirements in its usual course of operation by cash flows generated from operations, as well as long-term and short-term borrowings and equity financing, and to focus on reducing the net gearing ratio by improving profitability, procuring the disposal of non-core or idle assets and implementing tighter control over costs, working capital and capital expenditure.

The sales and purchases of the Group were denominated in Hong Kong dollar, US dollar and Renminbi. Fluctuations in exchange rate of foreign currencies such as US dollar and Renminbi remained a concern of the Group. To mitigate the foreign currency risk, the Group will consider entering into appropriate hedging arrangements from time to time.

Stock turnover days

Stock turnover days of the Group for the year ended 31st December, 2017 was similar to that of 2016 at approximately 22 days (2016: 21 days). The Group will continuously monitor and maintain its inventory level at a secure level in the coming year.

Debtors' turnover days

The debtors' turnover days decreased to 28 days for the year ended 31st December, 2017 from 40 days last year. Credit control on debt collection and new customers selection procedures are still being made in a stringent manner. Generally, the Group offers credit terms of 30 days to 120 days to its trade customers subject to the trading history and the individual creditability of the customers.

Dividend Policy

The declaration of dividends is subject to the discretion of the Directors only when the Company has distributable reserve and is expected to take into account various factors such as the Group's financial results, shareholders' interests, general business conditions and strategies, the Group's capital requirements, contractual restrictions on the payment of dividends by the Company to its shareholders or by the Group's

MANAGEMENT DISCUSSION AND ANALYSIS

subsidiaries to the Company, taxation considerations, possible effects on the Group's creditworthiness, statutory and regulatory restrictions and any other factors as the Directors may deem relevant. Taking into account the accumulated loss of the Company, the Board does not recommend the payment of final dividend for the year ended 31st December, 2017. There is no arrangement under which a shareholder has waived or agreed to waive any dividends.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31st December 2017 (2016: Nil).

MAJOR INVESTMENTS

During the year, save as elsewhere disclosed in the annual report, there was no other material acquisition or disposal of subsidiaries, associates and joint ventures of the Company.

RECENT DEVELOPMENT

In order to reflect more its corporate image and identity, acknowledging the future expansion, growth and diversity of the Group, the Board has resolved on 13th December 2017 to propose to change its English name from "Addchance Holdings Limited" to "GTI Holdings Limited" and the dual foreign name in Chinese from "互益集團有限公司" to "共享集團有限公司". The change of company name was approved by the shareholders at the extraordinary general meeting held on 23rd February 2018 and the change of company name became effective on the same date accordingly. The Company has also changed its company logo.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

GTI Holdings Limited (the “Company”, together with its subsidiaries, collectively referred to as the “Group” or “we” or “us” or “GTI”) is pleased to present the Environmental, Social and Governance Report 2017 (the “Report”) to provide an overview of the Group’s management of significant issues affecting its operation, including environmental, social and governance issues.

Reporting Year

This Report describes our environmental and social policies and performance during the reporting period from 1st January 2017 to 31st December 2017.

Scope of the Report

During the reporting period, the Group has undergone business restructuring to expand and diversify its business. Nevertheless, as textile business is still our principal business, this Report covers the Group and its subsidiaries’ office operation in Hong Kong, production and sale of dyed yarn, knitted sweaters and cotton yarns, the provision of dyeing services and knitting services and the trading of cotton and yarns in Cambodia¹ and the PRC², unless otherwise stated. The Group will continue to optimize and improve the scope of disclosure and its operation in accordance with the disclosure requirements after the data collection system of the Group becomes more well developed and its environmental, social and governance work further develops.

Reporting Standards

This Report is prepared in accordance with Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“SEHK”)(“Main Board Listing Rules”) – “Environmental, Social and Governance Reporting Guide” published by SEHK and has complied with “comply or explain” provision in the Listing Rules. This Report summarised the environmental, social and governance performance of GTI in a concise manner. Information in the Report originates from official documents and statistics of the Group, as well as the integration and summarization of monitoring, management and operation data provided by subsidiaries under the Group according to our relevant rules. The last chapter of this Report has a complete content index to facilitate quick reference of readers. This Report is prepared in both Chinese and English. In case of any conflict or discrepancy between the Chinese and English versions, the Chinese version shall prevail.

Message and Feedback

The Group values your opinions about this Report. If you have any opinion or suggestion, please email us at esg@gtiholdings.com.hk.

¹ Business in Cambodia includes Chung Yick Textile Factory Limited (“Chung Yick”), Dignity Knitter Limited (“Dignity”) and Ecobase Factory Limited (“Ecobase”)

² Business in the PRC includes An Qing Su Song Addchance Spinning Company Limited

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT US

GTI Holdings Limited (SEHK: 3344) is a leading textiles and garment manufacturer listed on the Hong Kong Stock Exchange. With over 30 years of experience and an established global customer base, the Group has secured a dominant position within the industry.

Combining expertise in production and efficiencies in production capability through full vertical integration, GTI is capable of delivering an innovative portfolio of products and services with unsurpassed quality. Specializing in the manufacture of cotton yarns, dyed yarns and knitted sweaters, the Group has been recognised by international accreditation organisations for its dedication and commitment to its customers.

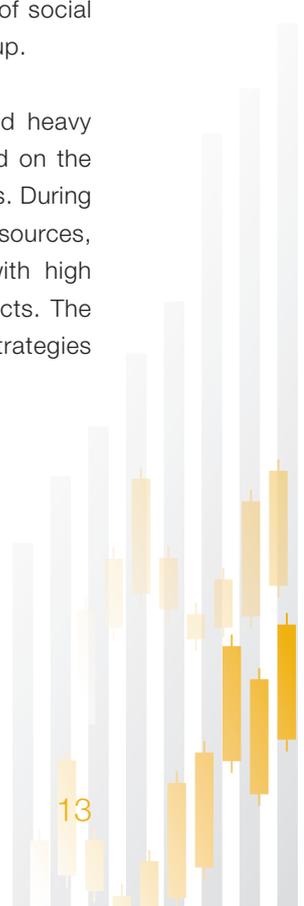
Headquartered in Hong Kong with production facilities strategically located throughout China and Cambodia, GTI brings together professional business management expertise with flexible manufacturing capabilities to create the optimal combination for success.

During the reporting period, the Group has decided to expand and diversify its business by engaging in petroleum trading business and provision of financial services.

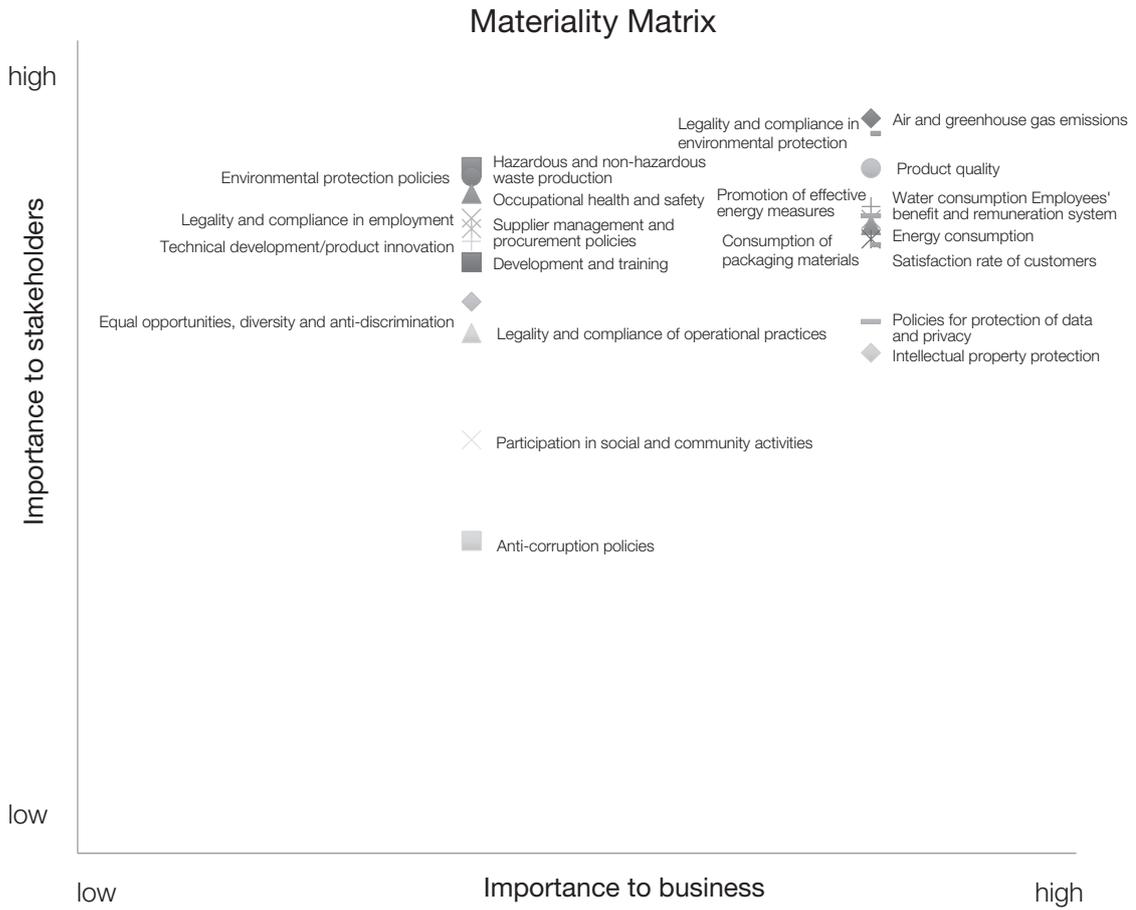
PRINCIPLES OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE MANAGEMENT

In the preparation of the Environmental, Social and Governance Report of the Group, stakeholder engagement will facilitate in analysing the concerns and important evaluation of all individual and organizational stakeholders on the environmental, social and governance issues of the Group. The stakeholders of the Group include employees, clients, suppliers, shareholders and investors of the Group, regulatory authorities, media and governmental authorities. We believe that stakeholder engagement will have certain influence on the Group in preparing guidelines and strategies on sustainable development and the performance of social responsibilities and it is the basis for the preparation and implementation of the strategies of the Group.

The management of the Group conducted a survey on stakeholders with significant influence and heavy dependence on the Group. After consolidating their opinions, we derived a materiality matrix based on the impact of various issues on the Company and the stakeholders and the level of concern on such issues. During the reporting period, the stakeholders of the Group attached higher importance to emissions, use of resources, product quality, etc. This Environmental, Social and Governance Report will cover all topics with high importance and describe the work conducted and progresses achieved by the Group in such aspects. The Group will pay more attention to such aspects in the long-term operation, prepare corresponding strategies and plans, improve policies and set long-term targets.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



ENVIRONMENTAL ASPECTS

The Group is highly concerned about the impact and potential risks of its production and operation on the environment and the surrounding ecological system. It conducts operation with awareness on environmental protection in a responsible manner. It strictly abides by relevant laws and regulations on environment in all places where the Group has operations, including the *Law of the People's Republic of China ("PRC") on Environmental Protection*, the *Law of the PRC on Air Pollution Prevention*, the *Law of the PRC on Noise Pollution Prevention*, the *Law of the PRC on Water Pollution Prevention*, the *Law of the PRC on Solid Waste Pollution Prevention*, the *Law of the PRC on Energy Saving*, the *Law of the PRC on Environmental Impact Assessment*, the *Law of the PRC on the Promotion of Clean Production*, the *Law of the PRC on the Promotion of Circular Economy*, the *Water Law of the PRC* and the *Environmental Protection Law of Cambodia*. During the reporting period, the Group had no material non-compliance with the aforesaid laws and regulations.

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The Group implements energy-saving measures in its office and plants to reduce the consumption of electricity and the emission of greenhouse gases. The Group also adopts policies to encourage the recycling and use of eco-friendly stationery. With various measures on saving the use of paper and energy, it can more efficiently use resources and reduce waste.

The Group is principally engaged in the production and sale of dyed yarn, knitted sweaters and cotton yarns, the provision of dyeing services and knitting services and the trading of cotton and yarns. Its major products include dyed yarns made of over 200 different types of cotton, cashmere, ramie, rayon, acrylic, polyester, silk, wool, nylon, linen and a mixture of the above, and knitted sweaters including cardigans and pullovers as well as socks and hosiery products. This Report will list relevant emission and control measures of the Group in the following sections.

Emissions

Waste gas/air pollutant emissions

The Group strictly abides by the Law of the PRC on Air Pollution Prevention and the Law of Cambodia on Environmental Protection and Natural Resources Administration (Air Pollution Control) in the treatment of waste gas. The waste gas is mainly generated from the plants in Cambodia, including sulphur dioxide, smoke and dust and nitrogen oxides. Currently, the authorities of Cambodia have no specific standard for the emissions of steam boilers. However, plants in Cambodia are inspected by local environmental protection officers regularly in respect of their temperature, humidity, etc. In order to mitigate the impact of waste gas generated, the Group has adopted the following measures: selecting firewood suppliers in a stringent manner and requiring the firewood supplied to meet fixed length, dryness and thickness to ensure sufficient burning and reduce smoke and dust.

The data of air pollutant emissions are as follows:

Type of emission	Emissions (kg)		
	Hong Kong ³	Cambodia ⁴	Total
Nitrogen oxides (NOx)	625.77	19,889.63	20,515.40
Sulphur oxides (SOx)	0.19	1,256.97	1,257.16
Suspended particles or particulate matter (PM)/smoke and dust	31.85	177.84	209.69

³ Emissions in Hong Kong are estimated with reference to HKEX – How to prepare an ESG Report? Appendix 2: Reporting Guidance on Environmental KPIs

⁴ Currently, there is no information relating to air pollutant emission standards and emission factor in Cambodia. We will use reasonable endeavour to enhance the accuracy of such data. The emissions are estimated based on the following public information: Environment and Climate Change Canada – National Pollutant Release Inventory (NPRI) toolbox, United States Environmental Protection Agency – Compilation of Air Pollutant Emission Factors (AP-42), and EMEP/EEA air pollutant emission inventory guidebook – 2016

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Air pollutants are mainly generated from the operation of plants in Cambodia, including emissions from the use of emergency generators and steam boilers and from vehicles. Air pollutants in Hong Kong mainly originate from vehicle emissions.

Greenhouse gas emissions

The Group is taking actions to reduce greenhouse gas emissions from its operations. We have implemented energy saving measures described in the “Use of resources” section. The data of greenhouse gas emissions⁵ are as follows:

Greenhouse gas emissions	Emissions (kg carbon dioxide equivalent)		
	Hong Kong	PRC	Cambodia
Scope 1 ⁶	63,384.22	–	6,103,177.71
Scope 2 ⁷	70,296.12	7,299,689.76	10,086,270.72
Total greenhouse gas emissions	133,680.34	7,299,689.76	16,189,448.43
CO ₂ emission from biofuels ⁸	–	–	9,813,672.96

Scope 1 emissions are mainly from emergency generators, fuels used by boilers and fugitive emission of refrigerant in Cambodia, and from fuels used by vehicles in Hong Kong. Scope 2 emissions are mainly from the use of electricity. Carbon dioxide emission from biofuels is mainly from emissions in burning of firewood in Cambodia.

Treatment of waste water

The Group strictly abides by the *Law of Cambodia on Environmental Protection and Natural Resources Administration (Waste Water Pollution Control)* in the treatment of waste water. Environmental officers carry out sewage test regularly. The discharge of waste water by the Group includes the industrial waste water from the operation and the domestic waste water from the daily water use by employees. As some subsidiaries of the Group do not generate industrial water, they have no record on the discharge of waste water. The water for most subsidiaries is taken from rivers or the rainfall collected and they have no washing water divisions. As a result, they have no tap water supplies and discharge issues. Plants with waste water have their biochemical treatment pools for waste water inside them. The waste water generated from the plants of the Group has significant effects on the environment. In order to reduce the pollution, it adopted environmental dyeing agents and invested in the establishment of a distributed control system (DCS) for online monitoring and control. If the indicators of the discharged water exceed the standards, the master valve will close automatically and no more water can be discharged.

⁵ The Group’s greenhouse gas emissions are calculated with reference to Greenhouse Gas Protocol Corporate Accounting and Reporting Standard

⁶ Scope 1: Direct emissions from operations that are owned or controlled by the company

⁷ Scope 2: “Energy indirect” emissions resulting from the generation of purchased or acquired electricity, heating, cooling and steam consumed within the company

⁸ The carbon dioxide emission from the burning of biofuels is reported separately. However, the nitrous oxide and methane generated from which are included in Scope 1

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The Group has adopted various measures to strictly ensure that the waste water can meet the discharge standards. The staff of waste water treatment station takes samples every 2 hours for checking whether it has fulfilled the standard. If it is found to be excessive, the discharge of waste water would be suspended immediately, and the cause of the problem will be identified and the Group will make sure the waste water has met the standard before discharge.

During the reporting period, the discharge of waste water by plants in Cambodia is as follows:

	Waste water discharge (m ³)
Dignity and Ecobase	109,407.00
Chung Yick	615.00
Total	110,022.00

In addition, samples of the waste water discharged from the plants are taken and tested regularly to see if the concentration of pollutants violates the *Law of Cambodia on Environmental Protection and Natural Resources Administration (Waste Water Pollution Control)*. All test results indicated that the processed waste water met the requirement of the law during the reporting period. The average test results of the concentration of pollutants in the waste water are as follows:

	Unit	Dignity and Ecobase	Chung Yick
pH	NA	7.14	6.84
Total suspended solids (TSS)	mg/litre	35.60	46.00
Biological oxygen demand (BOD ₅)	mg/litre	20.25	22.79
Chemical oxygen demand (COD)	mg/litre	38.00	41.65
Oil and grease	mg/litre	4.51	4.74
Total ammonia	mg/litre	0.10	0.11

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Treatment of solid waste

The Group strictly abides by the *Law of the PRC on Solid Waste Pollution Prevention* and the *Law of Cambodia on Environmental Protection and Natural Resources Administration (Solid Waste Management)* in the treatment of solid waste. The solid waste generated from the production plants in Cambodia is non-toxic and non-hazardous solid waste, including sweater, socks waste (scraps), plastic bags, waste paper box and paper and fur tubes. Chung Yick generated 456 cubic meters of non-hazardous solid wastes which mainly included household garbage, and some waste and old wool, broken and old paper, plastic bags, etc., while Dignity and Ecobase generated 62,189 kg of non-hazardous solid wastes. Such wastes were collected and processed by waste treatment companies approved by environmental authorities. The Hong Kong office generated 3,113 kg of non-hazardous solid wastes and 7.5 kg of toner. The toner was collected and treated by recycling companies.

Noise control

The Group strictly abides by the *Law of the PRC on Noise Pollution Prevention* and the *Law of Cambodia on Environmental Protection and Natural Resources Administration (Noise Control Management)* in controlling noises. It installs acoustic panels for equipment with high noise. In the general layout design of plants in Cambodia, plants generating high noises and low noises are separated. While meeting the requirements on the production processes, equipment with high noises are arranged relatively concentrated and measures on reducing and insulating noises are adopted.

Use of resources

The Group advocates environmental protection in our daily business operation. We adopt a variety of environmental friendly practices in our office premises and production plants as set out below.

Use of electricity

The Group strictly abides by the *Law of the PRC on Energy Saving*. The electricity consumption is mainly from the normal operation of plants, the operation of equipment and the electric equipment in office during the working hours. The Group understands that electricity consumption directly affects the emission of greenhouse gases. To reduce the emission of greenhouse gases, it must strive to reduce the electricity consumption. As a result, the Group attaches great importance to energy saving and reducing emission. The lights in all offices are replaced with T5 fluorescent lamps to improve the utilization rate of power and production plants are installed with transparent skylines to reduce the use of electricity. Meanwhile, the Group installed frequency converters for high-power motors to reduce electricity usage. It replaces traditional air-conditioners with water screen air-conditioners to reduce the consumption of electricity. During the reporting period, the energy consumption of the Group is as follows:

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Type of energy	Energy consumption (kWh)		
	Hong Kong	PRC	Cambodia
Purchased electricity	130,178.00	10,376,247.00	8,763,625.00
Diesel	17,954.85	–	1,136,715.59
Petrol	98,736.32	–	76,628.08
Firewood	–	–	24,807,535.32
Total energy consumption	246,869.17	10,376,247.00	34,784,503.99
Intensity	2.96	4,582.07	1.66
	kWh/m ²	kWh/tonne of cotton	kWh/product

Use of water

The use of water by the Group is mainly from the tap water required for the normal operation of plants, the drinking water in office during the working hours and the clean water in tea rooms and bathrooms. A majority of plants take water from rivers or underground water and they have established rainfall collection pools. As a result, they do not need tap water supplies. The Group attaches great importance to the improvement of the utilization rate of water resources and requires recycling water for production. It implements various measures in plants to improve the utilization rate of water resources, including setting up signboards on saving water at the place using water; replacing traditional water taps with water-saving taps; and strengthening the water-saving education on employees to enhance their awareness on energy saving and reducing emission. During the reporting period, the Group's water consumption is as follows:

	Water consumption		
	Hong Kong	PRC	Cambodia
Water consumption (m ³)	316.68	26,361	402,019
Intensity	6.88	11.64	0.02
	m ³ /person	m ³ /tonne of cotton	m ³ /product

Paper

The use of paper is mainly from the operation of the office, and the Group adopts the following measures to save paper:

- Designating specific recycling bins for waste paper and regularly contacting waste paper recycling companies on recycling matters;
- Using recycled paper;
- Using both sides of paper for printing and photocopying;
- Using the used side the paper for drafting, printing and receiving fax;
- Recycling used envelopes and folders in issuing internal documents and letters;
- Avoiding printing and photocopying documents unless it has to keep a printed version;
- Sending soft copies through emails rather than sending printed copies;
- Archiving documents in the electronic form;
- Modifying the annual report, announcements and other documents in the electronic form;
- Sending electronic greeting cards to replace paper cards during festivals.

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Firewood

Some plants of the Group use firewood as fuels for boilers. In order to achieve the maximum use of resources, the Group uses the remaining ashes after the burning of firewood as organic fertilizers for green plants in the plant area.

Packaging material used

During the reporting period, the packaging materials⁹ used were mainly for products produced in Cambodia. The materials used are as follows:

Type of packaging material	Quantity (pcs)
Plastic box	2,107,072
Carton	154,653
Clothes hanger	111,995
Carton sealing tape	9,838

Environment and natural resources

The Group pays much attention to environmental issues and the utilization of natural resources. The Group attaches great importance to the use of resources and advocates the environmental concept on energy saving and emission reduction as well as reducing the utilization of natural resources. Besides paper, the Group requires all plants operated by it to recycle all packaging materials and production materials, including paper tubes, paper boxes, fur tubes, plastic tubes, waste iron, waste copper and packaging bags. The Group attaches great importance to the greening work in its operation area and the green coverage in the plant area is relatively high. Besides, a majority of the interior lighting system in the plant area adopts the solar energy power storage system to utilize solar energy and indirectly save electricity. In order to reduce the solid waste generated, the Group requires employees to reduce the waste of food.

⁹ As the packaging materials are of different types, weight cannot be used as the reporting unit

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SOCIAL ASPECTS

Employment and labour practices

Employment

The Group firmly believes that employees are one of the most important assets of an enterprise. With the continuous growth of an enterprise, it must establish sustainable human capitals and attract and retain talents. The Group strictly abides by the labour laws in Hong Kong, Cambodia and the People's Republic of China, including labour laws, employment promotion laws, social insurance laws, employment ordinances, sexual discrimination ordinances, racial discrimination ordinances and other relevant laws, and ensure that it provides reasonable remuneration and welfare for employees and effectively prevents the employment of child labours and forced labours. The recruitment policy of the Group respects all employees. In the employment, training, performance management, selection of employees and the calculation of salaries, it ensures that no employees will be discriminated as a result of differences in race, religion, skin colour, sex, nationality, age and disability. It will treat all employees fairly, equally and impartially. Meanwhile, the termination of any employment contracts shall be based on reasonable grounds with proper legal basis. The Group strictly prohibits any inequitable or unreasonable dismissals. The human resources department of the Group will regularly review the latest laws and regulations to update relevant policies on human resources.

The Group will consider the working experiences of employees, the expected working ability, background, the market remuneration for the position, the internal budget of the company and other factors in recruiting new employees. As a result, the Group strives to attract and retain talents and allows them to achieve their goals in an environment where the Group values fairness, mutual respect, credit and other beliefs. In order to improve the salary, welfare, reward and punishment system on employees, the Group has established the basic remuneration management system on employees. It classifies the basic remuneration levels based on the positions, working time, technical position and positions of employees. It also establishes the employees performance management system and holds the performance appraisal meeting every year to evaluate and reward the diligent staff and punish staff with bad performance based on the completion of the work of the department and the implementation of various systems. The working time and breaks of employees meet local employment laws and are stipulated in the employment contract. Besides providing statutory paid leaves, contributing social insurance, housing provident fund and commercial travelling accident insurance for employees as well as providing employees with competitive remuneration system and other treatments provided by the Group, employees also enjoy maternity leave, marital leave, paternity leave, compassionate leave and other welfare according to laws.

In order to foster the sense of belonging of employees, all branches of the Group regularly hold various group activities. It held the anniversary dinner, Christmas party, Walk for a Million and other group activities during the reporting period to promote the friendship among employees and establish a harmonious relation in the team.

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As at the end of the reporting period, the composition and turnover of employees are as follows:

Employee composition

By gender	
Male	552
Female	2,836
By age group	
below 30	1,656
30-39	1,235
40-49	354
50 or above	143
By position	
Assistant general manager and above	10
Manager	17
Assistant manager	2
General staff	184
Operation staff	3,175
By geographical region	
Hong Kong	50
PRC	280
Cambodia	3058
Total	3,388

Turnover

By gender	
Male	6%
Female	2%
By age group	
Below 30	2%
30-39	2%
40-49	6%
50 and above	17%
By geographical region	
Hong Kong	31%
PRC	17%
Cambodia	1%

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Health and safety

The Group devotes itself to providing employees with a safe and healthy working environment meeting relevant laws and regulations of China, Cambodia and Hong Kong, including the *Law of the PRC on Safety Production*, the *Law of the PRC on the Prevention of Occupational Diseases*, the ordinances on insurance on work-related injuries and the ordinance on occupational safety and health. The Group actively conducts work on standard safety production and established a management system on standard safety production. It has passed the certification of the OHSAS18001 occupational health and safety management system. Related policies are also formulated, such as fire safety policy. During the reporting period, the Group had no material non-compliance with the aforesaid laws and regulations.

Meanwhile, the Group conducts relevant trainings on occupational health and safety for all employees and provides targeted trainings on emergency management, the safe operation of machinery and the disposal of dangerous materials for employees at relevant positions. It also organizes relevant employees to conduct emergency and fire drills every year. During the reporting period, our Cambodia subsidiaries held 12 health and safety trainings and two fire drills.

All subsidiaries of the Group also adopt corresponding measures to guarantee a healthy and safe working environment. The Group arranges professionals to assess the light, noise, air, dust, ventilation, air and other labour and working environment to ensure that it provides good and safe working conditions for employees. The Group provides employees with appropriate personal protection equipment to prevent potential labour accidents and minimize the effects on the health of employees. Such equipment include: earplugs, eyes protectors, anti-dust respirators, masks, rubber gloves, boots, insulated shoes, aprons, hairnets and safety belts. For plants with high noise, in order to reduce the time that employees are exposed to noises, the Group conducts relevant training on protection knowledge for employees exposed to noises and equips them with hearing protectors meeting standards. It also requires them to cooperate in the implementation of the hearing protection plan of the enterprise and wear earplugs consciously. It organizes relevant employees to conduct health check every year to help employees and the Group to learn about the health conditions of employees and make appropriate working arrangement and conduct treatment (if necessary). During the reporting period, there was no industrial accident.

Development and training

The Group is concerned about the professional development of every employee and sets corresponding training plans at all subsidiaries. During the reporting period, the Group organized medium and junior level employees to attend training courses related to the requirements of their work and positions, including the induction courses for new employees, health and safety courses, language courses and technical courses. The induction training covers internal rules on remuneration and welfare, labour disciplines, health and safety, fire fighting, working and position demands. The Group also provides annual trainings and other irregular trainings:

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- The annual trainings provide trainings on internal rules, the health and safety of all employees and fire fighting;
- The Company arranges regular trainings for different groups of employees based on local regulations and rules, including the training on safety operation by fork-lift truck drivers, boiler operators, chemical products managers and first-aid employees;
- Irregular training courses are conducted based on the actual requirements of all departments to improve the working ability of employees, including the primary practice certificate for boiler operators, fork-lift truck drivers and crane drivers.

Percentage of employees trained

By gender

Male	30%
Female	73%

By position

Assistant general manager and above	100%
Manager	82%
Assistant manager	100%
General staff	68%
Operation staff	66%

Average training hours

By gender

	hour/person
Male	3.29
Female	6.35

By position

Assistant general manager and above	4.40
Manager	3.88
Assistant manager	10.00
General staff	8.62
Operation staff	5.70

Labour standards

The Group strictly abides by the *Labour Law of the PRC*, the *Law of the PRC on Employment Contract*, the regulations on the prevention of minor labours in the PRC, the *Law of the PRC on the Protection of Minors* and other relevant labor laws and regulations and prevent the employment of child labours and forced labours by the Group. The subsidiaries of the Group have formulated child labour prevention policy, forced labour prevention policy, etc.

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The human resources department of the Group complies with relevant national laws and regulations and implements the labour management procedures to review the induction materials of employees to ensure the ages of employees comply with the requirements of regulations. It also conducts induction talks with employees before they join the Group and ascertaining that they are not forced labours. During the reporting period, the Group did not hire any child labour or forced labour, and there was no material non-compliance with the aforesaid laws and regulations.

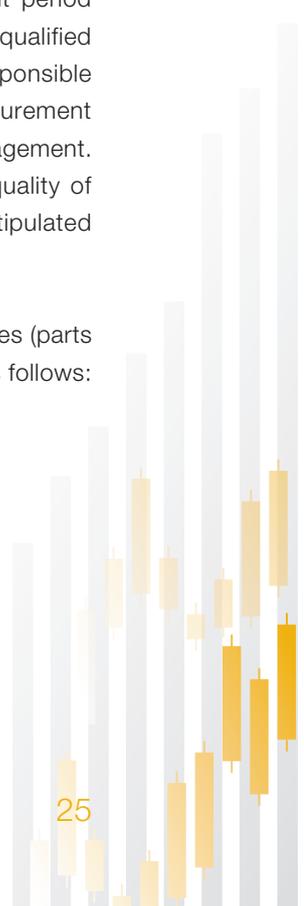
Operating practices

Supply chain management

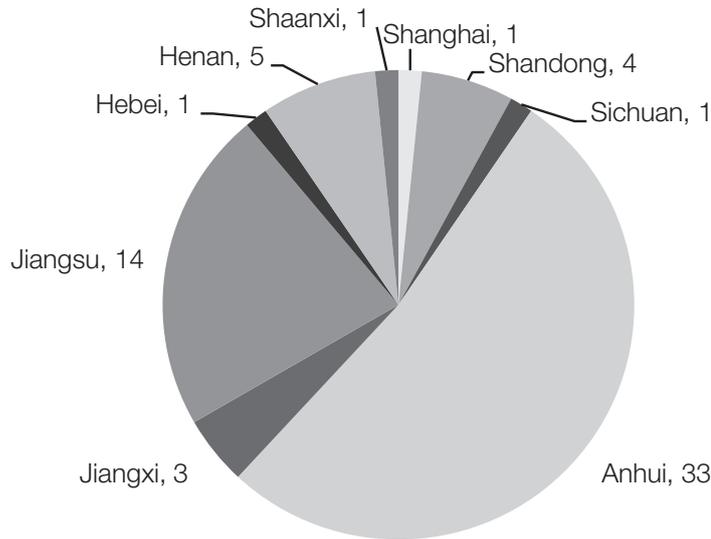
The Group is principally engaged in the production and sale of dyed yarn, knitted sweaters and cotton yarns, the provision of dyeing services and knitting services and the trading of cotton and yarns. The main raw materials procured by the Group are relevant wool and ancillary materials. When selecting suppliers, the Group generally considers environmental and social risk factors, requiring suppliers to provide local business licenses and taxation registration certificates to ensure that the suppliers meet the standards of national regulations on the industry. The specific standards for selecting include the following six aspects: meeting the standards of national regulations on the industry; having good reputation; passing the certification of quality management system; good services; competitive prices; and outstanding performance. In addition, qualified suppliers in Cambodia must provide business licenses, the approvals on pollution emission tax and value-added tax as well as the standard certificates on relevant products not containing hazards and meeting various international regulations.

For new suppliers, the Group requires them to provide samples to test their quality. If their samples are qualified and the price and delivery period meet the requirements, the procurement department will procure a few supplies to conduct further quality assessment. New suppliers have to pass an assessment period of 6 months. If the quality of the suppliers is stable during the period, they will be upgraded into qualified suppliers. For suppliers with cooperation at present, the procurement department of the Group is responsible for managing and maintaining a healthy and good commercial partnership with them. The procurement department has to strictly control the quality, select samples for review and determination by the management. The materials procured must be attached with quality warranty or on-site (entrusted) tests. If the quality of raw materials of the suppliers declines and fails to meet the required quality of the Group within the stipulated period, the procurement department will suspend the cooperation with the suppliers.

Currently, we have 63 suppliers in the PRC, which mainly provide the Group with low-value consumables (parts and accessories), transportation service and raw material (cotton). Their geographical distribution is as follows:



Distribution of suppliers



Product responsibility

The Group adheres to the concept of “Quality and Service Are Top Priorities” for products. It requires excellent quality, loyal services, green and environmental protection and no waste. The Group strictly abides by relevant laws and regulations on the industry, including the *Law of the PRC on Safety Production*, the *Law of the PRC on Standardization*, the *Quality Law of the PRC* and corresponding internal rules and regulations. All products must fully meet the EU standards on environmental protection, including REACH, WEEE, RoHS, EuP and other rules. During the reporting period, there was no material non-compliance with the aforesaid laws and regulations.

The Group has established a complete system on quality assurance and safety. The quality inspection department must conduct the routine inspection on the products of the range based on the *Responsibilities of the Positions of the Quality Inspection Department*. In early production, the quality inspection department shall compare and inspect if there are errors in the weaving, stitching, cross stitching, laundering, amending, packaging and other processes. Meanwhile, it also inspects whether the AQL (Acceptable Quality Level) meets the standards. If it spots defective products, it must explain the requirements on the problem to the employees in the production line, include improvement suggestions into the inspection report and follow up if the production department makes improvements as required. While it conducts random inspections on unfinished products, relevant departments must keep all products tidy for quality inspection staff to conduct random inspection. If it spots problems, it must hold meetings to discuss how to improve. Defective products must be returned for rework until they meet the standards and are handed over to the next department. During the final inspection, the quality inspection department shall randomly select samples for inspection and pays more attention to confirm that all of the problems raised in the medium inspection report have been improved. It shall inspect a considerable amount of clothes to conduct detailed inspection and check if all indicators meet the standards based on the requirements of the Company and fill in the inspection report on bulk products.

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If the Group receives complaints on product quality from clients, relevant departments will contact clients immediately and investigate the reasons of the complaint and resolve the matter. They will collect relevant materials (the handling and contents of the complaint) and submit them to the quality inspection department to investigate and analyze the reasons and determine the responsibilities. They will categorize them based on the sources of defective products and notify the relevant responsible departments to follow up the subsequent handling processes. During the reporting period, the Group had not received any complaint about its products.

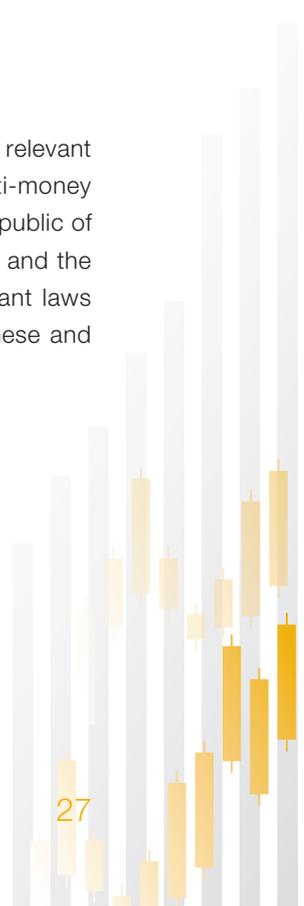
The Group appoints legal advisors to provide suggestions and regulation on the advertisement policies and labelling policies for the products. All advertisement suggestions shall be reviewed by legal advisors and approved by the media before official releasing to prevent such improper activities as false or exaggerated advertisements. The Group attaches great importance to the labelling and categorizing of relevant products. According to national laws and regulations and industrial standards, the Group prepares corresponding internal rules and regulations to guarantee the safety and traceability of products.

The Group has strictly abided by the Intellectual Property Law of the PRC, the Intellectual Property Protection Law of the PRC, and highly paid attention to and maintained customer's trade secret. Upon receiving design draft from customers, the relevant department will take the corresponding measures to ensure confidentiality of trade secret and prevent their leakage. For some products with intellectual property rights, the Group will enter into a confidentiality agreement with the relevant suppliers and customers for intellectual property and trade secret.

The Group has strictly abided by the laws and regulations of Mainland China and Hong Kong Special Administrative Region, including the Law on Protection of Consumer Rights, the Personal Data (Privacy) Ordinance and the Consumer Council Ordinance, in order to protect data and privacy of customers. During the reporting period, the Group had not received any complaints relating to breach of customer privacy/loss of customer information.

Anti-corruption

The Group is committed to adhering to the highest ethical standards. The Group has strictly abided by relevant laws and regulations on anti-corruption of Mainland China and Hong Kong, including the Law on Anti-money Laundering of the PRC, Article 274 (for extortion and racketeer) of the Criminal Law of the People's Republic of China, the Interim Provisions on Prohibiting Commercial Bribery, the Prevention of Bribery Ordinance and the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance. The relevant laws and regulations on anti-corruption of Mainland China and Hong Kong shall be applicable to all Chinese and Hong Kong employees of companies in Cambodia.



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In order to strengthen the internal management, rectify the attitude and discipline, improve the working efficiency, and enhance the corporate governance and internal control, the Group formulated the position accountability system of the Company according to relevant regulations. The system expressly prohibits employees from soliciting, accepting or providing bribes or any other form of interest. In addition, in order to prevent bribery, extortion, fraud and money laundering, the relevant departments will visit the suppliers, and evaluate price and quality regularly to ensure open and transparency when selecting suppliers. Also, the Group has provided a whistle-blowing channel to encourage exposure and disclosure of illegal acts. The privacy of the whistle-blower will be protected, and certain incentives will be offered. Employees may also report illegal acts by anonymous letters or e-mail. The Group established an independent monitoring team headed by the senior management, which is specifically responsible for anti-corruption related investigations. If such whistle-blowing message is received, such team will investigate the same in a confidential manner. Upon obtaining the relevant evidence, the Group will report the same to the authority. During the reporting period, there was no material non-compliance with the aforesaid laws and regulations nor any concluded corruption case.

Community Investment

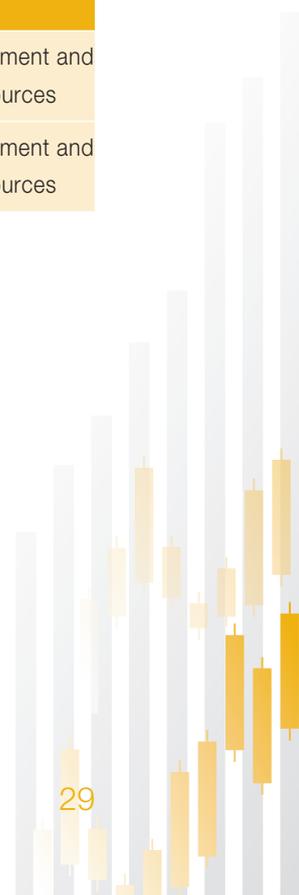
The Group is committed to maintaining a sustainable development for its business and community in which it locates. The subsidiaries of the Group responded positively to the call of the headquarters to make their contributions to the construction of community. The branch companies in Cambodia made donations to the Cambodia Red Cross each year. Branch companies in the PRC actively participated in “all county warmth-giving” activities and received the following awards: Financial Trustworthy Company, Model Taxpayer, Advanced Primary-level Party Organization, and An Qing Top 50 Enterprises. During the reporting period, our Hong Kong headquarters supported the New Territories Walk for Millions, the 2017-2018 Kwai Tsing District Youth Community Services Competition and the activities to celebrate the 68th anniversary of the establishment of the PRC, donating a total of HK\$80,000.

HKEX ESG REPORTING GUIDE INDEX

Subject Areas/Aspects/KPIs		Section/Statement
<i>Subject Area A – Environmental</i>		
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions
KPI A1.1	The types of emissions and respective emissions data.	Emissions
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Emissions

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Subject Areas/Aspects/KPIs		Section/Statement
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Emissions
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Emissions
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Emissions
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emissions
Aspect A2: Use of resources		
General Disclosure	Policies on efficient use of resources, including energy, water and other raw materials.	Use of resources
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per meal).	Use of resources
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Use of resources
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Use of resources
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Use of resources
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Use of resources
Aspect A3: The environment and natural resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	The environment and natural resources
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The environment and natural resources

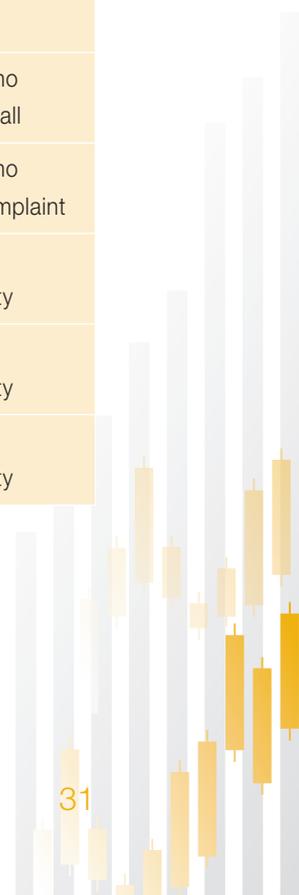


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas/Aspects/KPIs		Section/Statement
<i>Subject Area B – Social</i>		
Employment and Labour Practices		
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare.	Employment
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Employment
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employment
Subject B2: Health and safety		
General Disclosure	Information on (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and safety
KPI B2.1	Number and rate of work-related fatalities.	No fatalities
KPI B2.2	Lost days due to work injury.	No work injury
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Health and safety
Aspect B3: Development and training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. Note: Training refers to vocational training. It may include internal and external courses paid by the employer.	Development and training
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Development and training
KPI B3.2	The average training hours completed per employee by gender and employee category.	Development and training

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas/Aspects/KPIs		Section/Statement
Aspect B4: Labour standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child or forced labour.	Labour standards
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Labour standards
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Labour standards
Operating Practices		
Aspects B5: Supply chain management		
General Disclosure	Policies on managing environmental and social risks of supply chain.	Supply chain management
KPI B5.1	Number of suppliers by geographical region.	Supply chain management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supply chain management
Aspect B6: Product responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product responsibility
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	There was no relevant recall
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	There was no relevant complaint
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Product responsibility
KPI B6.4	Description of quality assurance process and recall procedures.	Product responsibility
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Product responsibility



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas/Aspects/KPIs		Section/Statement
Aspect B7: Anti-corruption		
General Disclosure	Information on (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	There was no relevant case
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Anti-corruption
Community		
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Community Investment
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Community Investment

CORPORATE GOVERNANCE REPORT

The Company is committed to the implementations of good corporate governance practices and procedures.

The Company has adopted the code provisions set out in the Corporate Governance Code (the “Corporate Governance Code”) as set out in Appendix 14 of the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). None of the directors of the Company (the “Directors”) is aware of any information which would reasonably indicate that the Company is not, or was not in compliance with the code provisions as set out in the Corporate Governance Code during the year ended 31st December, 2017 (the “Relevant Period”), save for those deviations as set out below:

- (a) certain non-executive Director did not attend the general meeting of the Company; and
- (b) the chairman of the Board did not attend the annual general meeting of the Company.

The Company has adopted some of the recommended best practices as set out in the Corporate Governance Code.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with each of the Directors, all of them have confirmed that they have complied with the required standard as set out in the Model Code during the Relevant Period.

BOARD OF DIRECTORS

Composition of the Board

As at the date of this report, there are (i) two executive Directors, namely Mr. Poon Sum and Mr. Cheung Tat Chung, and (ii) three independent non-executive Directors, namely Mr. Chan Shu Kin, Dr. Tse Kwok Sang and Mr. Chiu Wai Piu. The Directors’ biographical information is set out on pages 43-44 of this report.

CORPORATE GOVERNANCE REPORT

During the period between 19th April, 2017 and 31st December, 2017, the Chairman assumes the leadership of the Board to ensure that the Board works efficiently and discharges its responsibilities and encourages all Directors to make full and active contribution to the Board's affairs for the best interests of the Company. The Chairman has designated the Company Secretary of the Company for compiling the agenda for each Board meeting and is primarily responsible for approving the agenda after having taken into account, where appropriate, any matters proposed by the other Directors for inclusion in the agenda. Mr. Sung Kim Ping retired as Chairman on 7th May, 2016 and the Board appointed Mr. Poon Sum as the new Chairman with effect from 19th April, 2017.

During the Relevant Period:

- Mr. Poon Sum has been appointed as an executive Director and Chairman on 19th April, 2017;
- Mr. Lo Ping retired as an executive Director on 23rd May, 2017;
- Mr. Zheng Jun retired as an executive Director on 23rd May, 2017;
- Mr. Chui Chi Yun, Robert retired as a non-executive Director on 23rd May, 2017;
- Mr. Zhao Xu retired as a non-executive Director on 12th August, 2017.

Board Meetings and General Meetings

During the Relevant Period, 24 Board meetings and 3 general meetings were held. The respective attendance of each member of the Board was as follows:-

	Board meetings	General meetings
Mr. Poon Sum (appointed on 19th April, 2017)	10/11	0/2
Mr. Cheung Tat Chung	24/24	3/3
Mr. Lo Ping (retired on 23rd May, 2017)	15/15	2/2
Mr. Zheng Jun (retired on 23rd May, 2017)	13/15	1/2
Mr. Chui Chi Yun, Robert (retired on 23rd May, 2017)	15/15	1/2
Mr. Zhao Xu (retired on 12th August, 2017)	17/20	3/3
Mr. Chan Shu Kin	24/24	3/3
Dr. Tse Kwok Sang	18/24	3/3
Mr. Chiu Wai Piu	22/24	3/3

Code Provision A.6.7

Under Code Provision A.6.7, independent non-executive Directors and other non-executive Directors should attend the general meetings and develop a balanced understanding of the views of the shareholders.

Mr. Chui Chi Yun, Robert (being the non-executive Director) was unable to attend the annual general meeting of the Company held on 23rd May, 2017 due to his other business engagements.

Code Provision E.1.2

Under Code Provision E.1.2, the chairman of the Board should attend the annual general meeting.

Mr. Poon Sum, the chairman of the Board, did not attend the annual general meeting held on 23rd May, 2017 due to his other business engagement. Two (out of four) executive Directors and all committee members of each of the audit, remuneration, nomination and corporate governance committees attended the annual general meeting. The Company considers that their presence is sufficient for addressing the queries from, and maintaining effective communication with, the shareholders attending the annual general meeting.

Directors' insurance

The Company has taken out appropriate insurance cover in respect of legal action against the Directors during the Relevant Period.

Roles of the Board and the management of the Group

The Board assumes responsibility for the leadership and control of the Company and its members are collectively responsible for promoting the business of the Company. The Board makes decisions on important matters, including but not limited to the approval of the overall business strategies and policies, business development, risk management, annual budgets, financial results, investment proposals, major acquisition, disposals and capital transactions, internal control, material funding decisions and major commitments relating to the Group's operations. The Board has established four committees, namely the audit committee, the remuneration committee, the nomination committee and the corporate governance committee. The management of the Group is responsible for the day-to-day operations of the Group, which implements the business strategies and plans formulated and approved by the Board. Decisions on the Group's daily operations are delegated to the management of the Group.

Independent non-executive Directors

Each of the independent non-executive Directors has made an annual confirmation to the Company concerning his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors meet the guidelines for assessing independence as set out in Rule 3.13 of the Listing Rules and are considered to be independent. Mr. Chan Shu Kin is the independent non-executive Director with accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

CORPORATE GOVERNANCE REPORT

During the Relevant Period, each of the non-executive Directors (including the independent non-executive Directors) was re-appointed for a specific term. The appointment of:

- Mr. Chan Shu Kin is for a term of two (2) years commencing from 15th June, 2017;
- Dr. Tse Kwok Sang is for a term of two (2) years commencing from 9th July, 2017; and
- Mr. Chiu Wai Piu is for a term of two (2) years commencing from 1st September, 2017.

subject to retirement by rotation at the annual general meeting of the Company in accordance with the Articles of Association of the Company.

Remuneration Committee

The Company has established its remuneration committee (the “Remuneration Committee”) in August 2005. As at the date of this report, the members of the Remuneration Committee comprise all the independent non-executive Directors, namely Dr. Tse Kwok Sang, Mr. Chan Shu Kin and Mr. Chiu Wai Piu, with Dr. Tse Kwok Sang as the Chairman of the Remuneration Committee.

The principal responsibilities of the Remuneration Committee are to make recommendations to the Board on the Company’s policy and structure for all remuneration of Directors and members of the senior management of the Company, to determine, with delegated responsibility, the specific remuneration packages of all executive Directors and members of the senior management of the Company, to assess the performance of the executive Directors and to approve the terms of the service contracts of the executive Directors. The terms of reference of the Remuneration Committee have been posted on the website of the Company and are available upon request. The Remuneration Committee will consult the Chairman about its proposals relating to the remuneration of other executive Directors. During the Relevant Period, 3 Remuneration Committee meetings were held. The respective attendance of each of the members of the Remuneration Committee was as follows:–

Dr. Tse Kwok Sang	2/3
Mr. Chan Shu Kin	3/3
Mr. Chiu Wai Piu	3/3

CORPORATE GOVERNANCE REPORT

Nomination Committee

The Company has established its nomination committee (the “Nomination Committee”) in August 2005. As at the date of this report, the members of the Nomination Committee comprise all the independent non-executive Directors, namely Dr. Tse Kwok Sang, Mr. Chan Shu Kin and Mr. Chiu Wai Piu, with Dr. Tse Kwok Sang as the Chairman of the Nomination Committee.

The principal responsibilities of the Nomination Committee are to determine the policy for the nomination of Directors, review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed change. The terms of reference of the Nomination Committee have been posted on the website of the Company and are available upon request. The Company has also adopted a board diversity policy. Board diversity comprises various aspects, including but not limited to gender, age, cultural and educational background, experience, professional qualifications, expertise, skills and the business plans of the Group at the material time. The Board considers that its existing composition satisfies the requirements of diversity under the board diversity policy of the Company. During the Relevant Period, 3 Nomination Committee meetings were held. The respective attendance of each of the members of the Nomination Committee was as follows:-

Dr. Tse Kwok Sang	2/3
Mr. Chan Shu Kin	3/3
Mr. Chiu Wai Piu	3/3

Audit Committee

The Company has established its audit committee (the “Audit Committee”) in August 2005. The Audit Committee comprises three members, who are all independent non-executive Directors and one of whom is an independent non-executive Director with the appropriate professional qualifications, or accounting or related financial management expertise. As at the date of this report, the members of the Audit Committee comprise all the independent non-executive Directors, namely Mr. Chan Shu Kin, Dr. Tse Kwok Sang and Mr. Chiu Wai Piu, with Mr. Chan Shu Kin as the Chairman of the Audit Committee.

CORPORATE GOVERNANCE REPORT

The principal responsibilities of the Audit Committee are to review the relationship with the Auditors of the Company, review the financial information of the Group and oversee the Group's financial reporting system and internal control procedures. The terms of reference of the Audit Committee have been posted on the website of the Company and are available upon request. During the Relevant Period, 2 Audit Committee meetings were held. The respective attendance of each of the members of the Audit Committee was as follows:–

Mr. Chan Shu Kin	2/2
Dr. Tse Kwok Sang	2/2
Mr. Chiu Wai Piu	2/2

During the year ended 31st December, 2017, the Audit Committee reviewed the Group's interim and annual accounts. The Audit Committee had performed the following works:

- (a) reviewed the financial reports for the six months ended 30th June, 2017 and for the year ended 31st December, 2016;
- (b) reviewed the accounting principles and practices adopted by the Group and ensured the compliance with the relevant accounting standards, the Listing Rules and other statutory requirements;
- (c) reviewed and recommended to the Board the audit scope and auditor's remuneration for the year ended 31st December, 2016.

Corporate Governance Committee

The Company has established its corporate governance committee (the "Corporate Governance Committee") in April 2016. The Corporate Governance Committee comprises three members, who are all independent non-executive Directors and one of whom is an independent non-executive Director with the appropriate professional qualifications, or accounting or related financial management expertise. As at the date of this report, the members of the Corporate Governance Committee comprise all the independent non-executive Directors, namely Mr. Chan Shu Kin, Dr. Tse Kwok Sang and Mr. Chiu Wai Piu, with Mr. Chan Shu Kin as the Chairman of the Corporate Governance Committee.

CORPORATE GOVERNANCE REPORT

The principal responsibility of the Corporate Governance Committee is to keep effectiveness of the corporate governance and system of internal non-financial control of the Company, develop and review the Company's policies and practices on corporate governance and make recommendations to the Board, review and approve the annual corporate governance report and related disclosures in the annual and interim reports of the Company and ensure compliance with relevant requirements under the Listing Rules or other laws, regulations, rules and codes as may be applicable to the Company, review and monitor the training and continuous professional development of Directors and senior management of the Company, and develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Company.

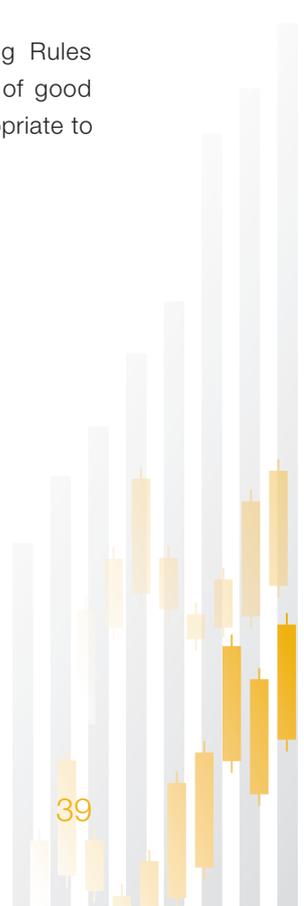
The terms of reference of the Corporate Governance Committee have been posted on the website of the Company and are available upon request. During the Relevant Period, no Corporate Governance Committee meeting has been held.

Continuous Professional Development

Pursuant to Code Provision A.6.5 of the Corporate Governance Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. During the Relevant Period, each of the Directors have been given relevant guideline materials to ensure that they are aware of the latest changes in the commercial, legal and regulatory requirements in relation to the Company's businesses, and to refresh their knowledge and skills on the roles, functions and duties of the director of a listed company.

New Directors, on appointment, will be given an induction package containing all key legal and Listing Rules' requirements as well as guidelines on the responsibilities and obligations to be observed by a director. The package will also include the documentation for the corporate governance practices adopted by the Board.

The Company also continuously updates Directors on the latest developments regarding Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. Circulars or guidance notes are also issued to Directors where appropriate to ensure their awareness of best corporate governance practices.



CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Poon Sum is the Chairman of the Board and Mr. Cheung Tat Chung is the chief executive officer of the Group. The roles of the Chairman and the chief executive officer are separate and exercised by different individuals.

COMPANY SECRETARY

The Company Secretary of the Company during the Relevant Period was Ms. Hui Wai Man, Shirley.

The biographical details of Ms. Hui Wai Man, Shirley, the current Company Secretary, are set out in the section headed "Directors and Senior Management" of this annual report. Ms. Hui Wai Man, Shirley took not less than 15 hours of relevant professional training in the year ended 31st December, 2017 as required by the Listing Rules.

RISK MANAGEMENT AND INTERNAL CONTROL

Sufficient and effective risk management and internal control systems provide reasonable guarantee for the future success of the Company's business.

The Board is responsible for assessing and determining the nature and extent of risks that the Company is willing to accept and procure the Company to set up and maintain proper and effective risk management and internal control systems; and supervising the management's implementation and monitoring of risk management and internal control system.

The Board has reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting, internal audit and financial reporting functions, and was satisfied with the results of the review.

For the year ended 31st December 2017, the Board has conducted a review on the Group's risk management and internal control systems at least semi-annually. The Board was satisfied that the Group has complied with the provision regarding risk management and internal controls as required under the Corporate Governance Code and is of the view that the risk management and internal control systems are effective and sufficient.

AUDITOR'S REMUNERATION

For the year ended 31st December, 2017, the auditors of the Company received approximately HK\$3,880,000 and HK\$150,000 for audit service and non-audit service respectively.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group. The statement by the auditors of the Company about their reporting responsibilities on the financial statements for the year ended 31st December 2017 are set out on page 59 of this report.

The auditors has stated in the financial statements that there is material uncertainty related to going concern and note 1 to the consolidated financial statements indicates that (a) the Group incurred a loss of approximately HK\$102,247,000 for the year ended 31st December 2017 and as of that date, the Group's current liabilities exceeded its current assets by approximately HK\$189,970,000; and (b) the legal proceeding with a former related party was still pending.

SHAREHOLDERS' RIGHTS

Convening extraordinary general meeting and putting forward proposals at Shareholders' meetings

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company at 9/F., 822 Lai Chi Kok Road, Cheung Sha Wan, Kowloon, Hong Kong to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) shall be reimbursed to the requisitionist(s) by the Company.

Enquiries to the Board

We always welcome Shareholders' views and input. Shareholders and other stakeholders may at any time address their concerns to the Company Secretary by mail, facsimile or email. The contact details are as follows:

Address: 9/F., 822 Lai Chi Kok Road, Cheung Sha Wan, Kowloon, Hong Kong
Facsimile no.: (852) 2301 2238
Email: info@gtiholdings.com.hk

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company regards high quality reporting as an essential element in building successful relationships with its shareholders. The Company always endeavours to provide relevant information to existing and potential investors, not only to comply with the different requirements in force but also to enhance transparency and communications with shareholders and the investing public. Regular and publicly available disclosures about important issues, including performance, fundamental business strategy, governance and management of risk are made through various channels:

- the Company's annual general meeting and extraordinary general meetings;
- interim and annual results announcements published on the websites of the Company and the Stock Exchange;
- interim and annual reports of the Company delivered to all shareholders;
- regular press releases;
- timely update of the websites of the Stock Exchange and the Company;
- circulars and other corporate communications to Shareholders; and
- prompt news releases and announcements regarding major corporate actions and business initiatives.

The Company maintains a website at www.gtiholdings.com.hk where the Company's announcements, circulars, notices, financial reports, business developments, press releases and other information are posted.

The Company is committed to ensuring that it is in full compliance with disclosure obligations stipulated under the Listing Rules and other applicable laws and regulations, and that all shareholders and potential investors have an equal opportunity to receive and obtain externally available information that is released by the Group.

CONSTITUTIONAL DOCUMENT

The Company did not amend its Articles of Association during the Relevant Period.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. POON Sum, aged 53, was appointed as Executive Director of the Company on 19th April 2017. Mr. Poon has over 27 years of experience in the oil, paints and coatings industry and the trading of chemicals in Hong Kong and the People's Republic of China. He was an executive director and honorary chairman of Tou Rong Chang Fu Group Limited (formerly known as PetroAsian Energy Holdings Limited, Stock Code: 850), until his retirement in August 2017. Currently, he is an executive director, chief executive officer, chief financial officer and executive corporate secretary of Gold Horn International Enterprises Group Limited (Stock Code: GHE/P, a company listed on the TSX Venture Exchange, Canada).

Mr. CHEUNG Tat Chung, aged 63, was appointed as Executive Director and CEO of the Company on 13th August 2016. He is currently responsible for the management of the business operations of the Group, including daily operations, formulating group strategy and operation target in accordance with the board of directors' decision, also creating the Group culture and developing the Group's own brand. Mr. Cheung has over 30 years of corporate and institutional banking experience in terms of sales & marketing, relationship management, cross-border financing and trade financing business. He has worked for several international banks or financial institutions in Hong Kong. Apart from his banking experience, Mr. Cheung also has over 15 years' solid and comprehensive experience in China factory management across several provinces, including Guangdong, Jiangsu and Shanghai, particularly between 1998 and 2011. He is a founding and senior member of the Greater China Financial Professionals Association (大中華金融業人員總會).

Independent Non-Executive Directors

Mr. CHAN Shu Kin, aged 63, was appointed as an independent non-executive Director of the Company on 15th June, 2015. Mr. Chan is a practicing certified public accountant and is a partner of Messrs. Ting Ho Kwan & Chan, Certified Public Accountants. Mr. Chan has over 40 years of experience in the field of auditing, accounting as well as financial management. He is an associate member of the Institute of Chartered Accountants in England and Wales, a fellow member of each of the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants. He is also a Certified Tax Advisor of the Taxation Institute of Hong Kong and the past president of the Society of Chinese Accountants and Auditors. Mr. Chan is currently an independent non-executive director of Tou Rong Chang Fu Group Limited (formerly known as "PetroAsian Energy Holdings Limited", Stock Code: 850) and PYY Corporation Limited (Stock Code: 498).

DIRECTORS AND SENIOR MANAGEMENT

Dr. TSE Kwok Sang, aged 61, was appointed as an independent non-executive Director of the Company on 9th July, 2015. He holds a bachelor degree in Chemistry from The University of Hong Kong. He also holds a degree of Master of Business Administration, a master degree in Statistics and a Ph.D. degree in Finance from Michigan State University in the United States. Dr. Tse has also obtained the professional designation of Associate of the Society of Actuaries in the United States. Dr. Tse is currently the Undergraduate Programme Director and Associate Professor of the School of Economics and Finance of The University of Hong Kong. Before joining The University of Hong Kong, Dr. Tse was the Assistant Professor of Finance at the Hong Kong University of Science and Technology; prior to that, he was the Assistant Professor of Finance and Insurance at Indiana University in the United States. Dr. Tse is a Co-opted Executive Councilor of the New Territories Heung Yee Kuk. On 1st July, 2010, Dr. Tse was appointed by the Chief Executive of the HKSAR Government as the Justice of the Peace. Dr. Tse is currently an independent non-executive director of Wing Lee Property Investments Limited (Stock Code: 864) and Sunlight Real Estate Investment Trust (Stock Code: 435) as well as AP Asset Management (HK) Limited.

Mr. CHIU Wai Piu, aged 71, was appointed as an independent non-executive Director of the Company on 1st September, 2015. He is a very experienced and reputable journalist and has over 42 years of experience in journalism. He has been a reporter, an editor, the main news assignment editor, the local news assignment editor, the managing editor and the editorial writer in newspapers and a senior research officer in “One Country Two Systems Research Institute”. Mr. Chiu has been the founding treasurer and the second-session chairman of the “Hong Kong Federation of Journalists”. In 2006, he was elected as the Vice Secretary – General & Treasurer in the new session of re-election of committee members of the “Hong Kong Federation of Journalists”; and he was also elected as the Director-General in 2009, he is now the Deputy Chief Secretary. Mr. Chiu has, for many years, devoted himself wholeheartedly in boosting cooperation among local journalists, enhancing professional conduct of journalists and developing the relationship and advocating the interchange of knowledge between journalists in Hong Kong and Mainland China. His contribution in this field is highly praised and recognised. Mr. Chiu currently serves as the independent non-executive director of Tou Rong Chang Fu Group Limited (formerly known as PetroAsian Energy Holdings Limited, Stock Code: 850) and Zhuoxin International Holdings Limited (formerly known as Gold Tat Group International Limited, Stock Code: 8266). Mr. Chiu served as an independent non-executive director of Meilleure Health International Industry Group Limited (formerly known as Jiwa Bio-Pharm Holdings Limited, Stock code: 2327) from September 2008 to September 2013 and an independent non-executive director of Global Strategic Group Limited (Stock Code: 8007) from October 2014 to June 2016.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. LIN Chun Ming, aged 65, is the director of Chinakey (Hong Kong) Limited and the Senior Manager of the sales department of the Group. Mr. Lin is responsible for the sales and marketing of the Group's yarn dyeing and sweater knitting sections. Mr. Lin obtained a Diploma in Business Management from the Hong Kong Baptist University in 1977. Mr. Lin has over 30 years of sales and marketing experience in the textile industry. Mr. Lin first joined the Group as a sales representative of Addchance in April 1985 but vacated in April 1990 and founded his own textile business, Lynn's Trading Company. He re-joined the Group in May 1996.

Ms. HUI Wai Man, Shirley, aged 50, is the Company Secretary of the Company from 6th November 2015. She is a practicing accountant in Hong Kong and is currently a director of a CPA firm and a securities firm. Ms. Hui is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

Mr. IP Siu Kay, aged 45, is the Financial Controller of the Group since November 2015. Mr. Ip has years of experience in different areas such as accounting, auditing, taxation, company secretarial work, investor relations and corporate finance. He is an associate member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England and Wales and a fellow member of the Association of Chartered Certified Accountants.

Mr. TSANG Fai, aged 45, joined the Group in January 1999 as an assistant to sales manager and was elected as an executive Director of the Company in May 2013. In June 2016, he resigned as the executive Director of the Company and remained his office as a director of a principal subsidiary of the Company. Mr. Tsang is responsible for the operation and administration of the Group's sweater knitting section. Mr. Tsang obtained his Bachelor's degree in Mathematical Science and Master's degree in Scientific Computing from the Hong Kong Baptist University in 1998 and 2003 respectively.

Mr. YEUNG Choi Yee, aged 43, joined the Group in November 2003 and was elected as an executive Director of the Company on 1 July 2015. In May 2016, he retired as the executive Director of the Company and remained his position as the general manager of the Group. Mr. Yeung is responsible for the supervision of the Group's information technology department, and the development of the Group's ISO9001 management system, quality system and technological research in the Group's yarn dyeing section. Mr. Yeung obtained his Bachelor's degree in Mathematical Science and Master's degree in Scientific Computing from the Hong Kong Baptist University in 1998 and in 2003 respectively.

Ms. LAU Wai Wing, Vivian, aged 49, is currently the director of Group Profit Holdings Limited, a non-wholly owned subsidiary of the Company. She holds a Master Degree in Business Administration from Murdoch University in Perth, Australia. Prior to joining the Group, she worked in the financial and management fields for over 24 years and held various positions such as financial controller and marketing development in different positions for a number of reputable groups, which include 粵海石化有限公司 (Guangdong Petrochemical Company Limited*), 香港東峰國際有限公司 (Hong Kong Eastern Hill International Limited*), 中國石油台山星光銷售有限公司 (Taishan PetroChina Sales Company Limited*) and 廣東東長集團有限公司 (Guangdong Dongchang Group Company Limited*). She has been engaged in the imports, re-exports, domestic trading and blending of fuel oil since 2001, and is very familiar with the domestic fuel market.

* *The English transliteration of the Chinese name in this report, where indicated, is included for information purpose only, and should not be regarded as the official English name of such Chinese name.*

DIRECTORS' REPORT

The Directors present the 2017 annual report and the audited consolidated financial statements for the year ended 31st December, 2017.

BUSINESS REVIEW

A review of the Group's business and the analysis using the financial key performance indicators are set out on pages 5 to 10 of this report under the paragraphs headed "Business Review and Prospects" and "Financial Review" in the section headed "Management Discussion and Analysis" of this report. In summary, (i) the Group recorded a gross loss of HK\$67.44 million for the year ended 31st December, 2017, which significantly was reduced by 79.5% as compared with the gross loss of HK\$328.55 million for the year ended 31st December, 2016; (ii) production and sales of knitted sweaters and dyed yarn remained as the principal operation of the Group; (iii) the market demands from European customers decreased as a whole; (iv) the market condition for textile industry remained difficult in the year of 2017.

There are a number of principal risks and uncertainties facing the Group as follows: (i) overall weak growth in consumer market of textile industry, (ii) substantial fluctuation in exchange rates, (iii) the intensified international competition, (iv) rapid development of textile products in neighboring countries, such as Bangladesh. The above are not intended to be an exhaustive list of all principal risks and uncertainties facing the Group. These may change over time as new risks and uncertainties emerge and others cease to be of concern.

Looking ahead, the global economy will remain uncertain. However, the rigid demand for textile products as necessity goods will continue to exist at a stable state.

Particulars of the major suppliers and customers of the Group are set out on page 53 of this report. The Directors are in general satisfied with the relationships with the customers and suppliers.

The Company recognizes the importance of having good working relationship with its staff and the Directors believe that the Group has good working relationship with its staff as a whole.

In respect of corporate social responsibility, our first green factory in Cambodia has commenced operation since the first quarter of 2013 and was established under the concept of reuse, reduce and recycle. By using environmental friendly materials and implementing green production processes, we aim to achieve better energy conservation and to minimize daily disposals. We have obtained the recognized environmental-related permits as planned.

Save and except for certain deviation from the Corporate Governance Code as set out under Appendix 14 to the Listing Rules, the Company has complied in all material respects with all relevant laws and regulations that have a significant impact on the Group.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 39 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 61.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 18 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 30 to the consolidated financial statements.

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

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

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31st December, 2017 amounted to approximately HK\$Nil.

DIRECTORS' REPORT

DIRECTORS

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

Executive Directors:

Mr. Poon Sum (appointed on 19th April, 2017)
Mr. Cheung Tat Chung
Mr. Lo Ping (retired on 23rd May, 2017)
Mr. Zheng Jun (retired on 23rd May, 2017)

Non-executive Directors:

Mr. Chui Chi Yun, Robert (retired on 23rd May, 2017)
Mr. Zhao Xu (retired on 12th August, 2017)

Independent non-executive Directors:

Mr. Chan Shu Kin
Dr. Tse Kwok Sang
Mr. Chiu Wai Piu

Mr. Chan Shu Kin, Dr. Tse Kwok Sang and Mr. Chiu Wai Piu will retire from office by rotation in accordance with Article 87(1) of the Articles of Association of the Company and, being eligible, have offered themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Mr. Poon Sum has entered into a director's service agreement with the Company for an initial term of three years from 19th April, 2017, and either party may terminate the agreement by giving to the other party not less than three months notice in writing.

Mr. Cheung Tat Chung has entered into a director's service agreement with the Company for an initial term of three years from 13th August, 2016, and either party may terminate the agreement by giving to the other party not less than three months notice in writing.

Mr. Chan Shu Kin has entered into a letter of re-appointment with the Company for a term of two years from 15th June, 2017 to 14th June, 2019.

Dr. Tse Kwok Sang has entered into a letter of re-appointment with the Company for a term of two years from 9th July, 2017 to 8th July, 2019.

Mr. Chiu Wai Piu has entered into a letter of re-appointment with the Company for a term of two years from 1st September, 2017 to 31st August, 2019.

Other than as disclosed above, none of the directors of the Company has a contract of service with the Company or any of its subsidiaries not determinable by the employing company within one year without payment of compensation (except for statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December 2017, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (Chapter 571 of the Laws of Hong Kong)), which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions in Shares

Name	Company/Name of associated corporation	Capacity	Numbers of Shares held	Percentage of shareholding
Poon Sum ("Mr. Poon")	The Company	Beneficial owner	3,608,000	0.07%
		Interest of spouse (<i>Note 1</i>)	4,000,000	0.07%
		Interest in controlled corporation (<i>Note 2</i>)	3,809,442,000	70.59%

Notes:

- Mr. Poon was regarded as interested in all the Shares in which Ms. Wong Hiu Hung, his wife, was interested by virtue of the SFO.
- These Shares were registered in the name of Gold Train Investments Limited ("Gold Train"), the entire issued capital of which was owned by Mr. Poon. Mr. Poon was also the sole director of Gold Train. Mr. Poon was deemed to be interested in all the Shares in which Gold Train was interested by virtue of the SFO.

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

DIRECTORS' REPORT

SHARE OPTION SCHEME

The Company has adopted a share option scheme on 23rd May, 2017 (the "Scheme") which enables the Company to grant options to eligible persons as incentives or rewards for their contributions to the Group. Pursuant to the Scheme, the Company may grant options to (a) any full time employee or director of any member of the Group; (b) any part time employee of any member of the Group who has spent not less than 10 hours per week in providing services to such member of the Group, determined by averaging out the total number of hours so spent in a period of four weeks immediately preceding the week in which a grant of the option is offered to such part time employee; or (c) any consultant or adviser of or to any member of the Group who has provided technical know-how and consultancy services to such member of the Group in accordance with the terms of a contractual relationship entered into between the consultant or adviser with such member of the Group.

The total number of the Shares which may be issued upon exercise of all options to be granted under the Scheme must not exceed 539,673,090 Shares, representing 10 per cent. of the Shares in issue as at the date of passing the resolutions approving the Scheme. The total number of the Shares issued and to be issued upon exercise of the options granted to a participant under the Scheme (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent. of the Shares in issue from time to time unless approval from the shareholders of the Company in general meeting is obtained with such participant and his/her associates abstaining from voting.

The exercisable period of an option under the Scheme will be notified by the Board to each participant which shall not exceed 10 years from the date upon which the option is deemed to be granted and accepted. The Scheme does not require a minimum period for which an option must be held before an option can be exercised. Upon acceptance of the option, the eligible person shall pay HK\$1.00 to the Company by way of consideration for the grant. The subscription price for the Shares subject to options will be a price determined by the Board and will be at least the highest of (i) the average closing price of the Shares on the Main Board as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; (ii) the closing price of the Shares on the Main Board as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; and (iii) the nominal value of the Share. Subject to the termination provisions, the Scheme will remain valid for a period of 10 years commencing on 23rd May, 2017. The Scheme will expire on 22nd May, 2027.

No options were granted, exercised, cancelled or lapsed during the year ended 31st December, 2017 nor outstanding as at 31st December 2017.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its ultimate holding company, any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

EQUITY LINKED AGREEMENTS

Other than the Share Option Scheme, no equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

DIRECTORS' INDEMNITY

According to the articles of association of the Company, the Directors for the time being 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 they or any of them, shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty in their respective offices.

The Company has taken out appropriate insurance cover in respect of legal action against the Directors during the year ended 31st December, 2017.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance to which the Company, its ultimate holding company, any of its fellow subsidiaries or subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

RELATED PARTY TRANSACTIONS

Those related party transactions as set out in note 38 of the consolidated financial statements constituted exempted connected transactions/continuing connected transactions of the Company.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSON IN SHARES AND UNDERLYING SHARES

As at 31st December 2017, the following substantial shareholders and other person (other than a director or chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in Shares

Name	Capacity	Numbers of Shares held	Percentage of shareholding
Gold Train	Beneficial owner (<i>Note 1</i>)	3,809,442,000	70.59%
Wong Hiu Hong ("Ms. Wong")	Beneficial owner Interest of spouse (<i>Note 2</i>)	4,000,000 3,813,050,000	0.07% 70.65%
China Great Wall AMC (International) Holdings Company Limited ("China Great ")	Security interest (<i>Note 3</i>)	2,752,332,765	51.00%

DIRECTORS' REPORT

Notes:

1. The entire issued capital of Gold Train was owned by Mr. Poon. Mr. Poon was also the sole director of Gold Train. Mr. Poon was deemed to be interested in all the Shares in which Gold Train was interested by virtue of the SFO.
2. Ms. Wong was regarded as interested in all the Shares in which Mr. Poon, her husband, was interested by virtue of the SFO.
3. China Great, having a security interest in 2,752,332,765 shares, was interested in 2,752,332,765 shares by virtue of the SFO.

Save as disclosed above, as at 31st December 2017, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors of the Company, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all of the independent non-executive directors are independent.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the executive directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics. The remuneration of the non-executive directors (including the independent non-executive directors) of the Company are recommended by the Remuneration Committee. The details of emoluments of the directors are set out in note 14 to the consolidated financial statements.

For the year ended 31st December, 2017, emolument of one of the senior management was within the band of HK\$1,000,001 to HK\$1,500,000 and the emoluments of all remaining senior management were within the band of HK\$Nil to HK\$1,000,000.

DIRECTORS' INTEREST IN COMPETING BUSINESSES

None of the Directors or any of their respective associates has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

MANAGEMENT CONTRACTS

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

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders by reason of their holding of the Company's shares.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 43.9% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 12.3% of the Group's total sales.

During the year, the aggregate purchases attributable to the Group's five largest suppliers comprised approximately 60.7% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 49.8% of the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers and suppliers.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2017.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

POON SUM
Chairman

Hong Kong, 29th March, 2018

INDEPENDENT AUDITOR'S REPORT

Deloitte.

德勤

TO THE SHAREHOLDERS OF GTI HOLDINGS LIMITED
(FORMERLY KNOWN AS ADDCHANCE HOLDINGS LIMITED)
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of GTI Holdings Limited (the “Company”, formerly known as Addchance Holdings Limited) and its subsidiaries (collectively referred to as the “Group”) set out on pages 61 to 137, which comprise the consolidated statement of financial position as at 31st December, 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the Hong Kong Institute of Certified Public Accountants (“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.

Material Uncertainty Related to Going Concern

We draw attention to note 1 to the consolidated financial statements, which indicates that (a) the Group incurred a loss of approximately HK\$102,247,000 for the year ended 31st December, 2017 and as of that date, the Group’s current liabilities exceeded its current assets by approximately HK\$189,970,000; and (b) the legal proceeding with a former related party was still pending. In order to improve its liquidity and financial position, the Company is actively identifying alternative sources of fundings and has been implementing certain cost-control and cost-saving measures.

However, the ultimate outcome of the legal proceeding with the former related party and the likelihood of raising any new fundings could not be assessed at the date of our report. As stated in note 1 to the consolidated financial statements, these events or conditions, along with other matters as set forth in note 1 to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT

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. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter

How our audit addressed the key audit matter

Provision for inventories

We identified the provision for inventories as a key audit matter due to high degree of management judgement involved in estimation of the amount of allowances based on net realisable values.

As disclosed in note 4 to the consolidated financial statements, the carrying amount of the Group's inventories as at 31st December, 2017 amounted to HK\$28,635,000 and provision for inventories recognised for the year then ended amounted to HK\$16,521,000, resulting from the challenging operating environments of the Group's textile products.

The directors identified that the operating environments of the textile industry was still challenging during the year due to the sluggish demands in the domestic and foreign markets. Management reviewed the net realisable values of the inventories at the end of the reporting period to determine whether any provision is required to write off or write down the inventories to their net realisable values, based primarily on the aged analysis of inventories, latest selling prices and current market conditions, less the estimates for cost of completion of and cost to make the sale for the products (if any).

Our procedures in relation to provision of inventories included:

- Understanding management's assessment in estimating the net realisable values of the inventories which is based on the aged analysis of inventories to make provision to write off or write down inventories to their net realisable values;
- Testing the accuracy of the aged analysis of inventories, on a sample basis, by checking the ageing date to date of purchase or manufacture;
- Testing the appropriateness of management's estimates of the net realisable values of the inventories by comparing the latest selling prices of the inventories, on a sample basis, to the latest invoice prices of sales and management's computations for cost of completion of and cost to make the sales for the products; and
- Evaluating the historical accuracy of the provision by the Group by comparing the allowance made in prior year to actual amount of obsolete inventories in current year.



INDEPENDENT AUDITOR'S REPORT

Key Audit Matters – continued

Key audit matter

How our audit addressed the key audit matter

Impairment of property, plant and equipment and prepaid lease payments

We identified the impairment of property, plant and equipment and prepaid lease payments as a key audit matter because of its significance to the consolidated financial statements and high degree of management judgement involved in determining whether the carrying amount of these assets are recoverable based on the operating results of the Group's textile business and the latest future development plans of the relevant business of the Group.

As disclosed in notes 18 and 19 to the consolidated financial statements, carrying amounts of the Group's property, plant and equipment and prepaid lease payments as at 31st December, 2017 amounted to HK\$276,239,000 and HK\$45,600,000 respectively; and impairment losses in respect of property, plant and equipment and prepaid lease payments recognised for the year then ended amounted to HK\$32,110,000 and HK\$424,000 respectively.

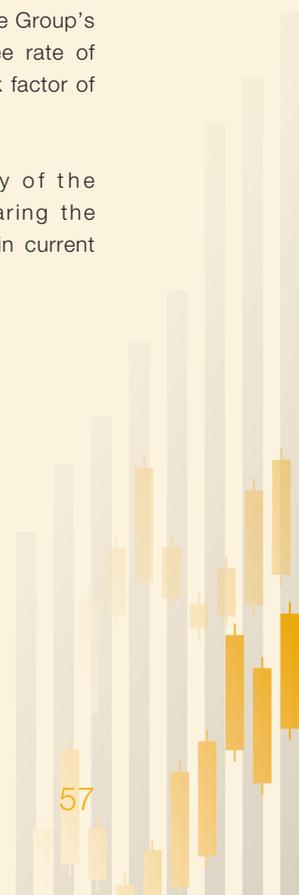
The calculation of the recoverable amount requires the management of the Group to estimate the higher of fair value less costs of disposal and value in use of those assets. The management reviewed the recoverable amounts of the property, plant and equipment and prepaid lease payments at the end of the reporting period by estimating both (i) the value-in-use of these assets with the key input parameters of estimated gross profit margin, future revenue growth rates and discount rates of its textile business and (ii) the respective fair value less costs of disposal of these assets to determine the impairment amount required to write down these assets to their recoverable amounts. As at 31st December, 2017, the Group has involved independent professional valuers to assess the valuation of the recoverable amounts of the property, plant and equipment and prepaid lease payments.

Our procedures in relation to impairment of property, plant and equipment and prepaid lease payments included:

- Understanding management's assessment in estimating the value-in-use and fair value less costs of disposal of the property, plant and equipment and prepaid lease payments and the management's approval for making impairments to write down the relevant assets to their recoverable amounts;
- Evaluating the competence, capabilities and objectivity of the independent valuers;
- Testing the calculation of recoverable amounts by the higher of value-in-use and fair value less costs of disposal of the property, plant and equipment and prepaid lease payments;
- Evaluating the valuation models, including the assumptions applied therein, prepared by the independent valuers in determining (i) the value-in-use based on management's estimates of estimated gross profit margin, future revenue growth rates expected to arise from the operations of the textile business, with reference to the historical performance and the latest budgets of the Group approved by the management; (ii) the fair value less costs of disposals of the Group's property, plant and equipment and prepaid lease payments; and (iii) discount rates used by management by comparing the data derived externally to the Group's own inputs of the current market risk-free rate of interest as well as the industry specific risk factor of the textile business; and
- Evaluating the historical accuracy of the management's assessment by comparing the historical estimates to actual parameters in current year.

Key Audit Matters – continued

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of an available-for-sale investment in Coulman International Limited (“Coulman International”)</i>	
<p>We identified the impairment of the Group’s available-for-sale investment of 13% equity interest in Coulman International, which engages in natural gas operations and measured at fair value at the end of each reporting period as a key audit matter because of its significance to the consolidated financial statements and high degree of management judgement involved in determining whether the decline in fair value of the investment below its cost is significant or prolonged.</p> <p>As disclosed in note 22 to the consolidated financial statements, the carrying amount of the available-for-sale investment as at 31st December, 2017 amounted to HK\$81,484,000 after an impairment loss reclassified from investment revaluation reserve to profit or loss amounted to HK\$15,420,000 during the first half of 2017 and a fair value gain recognised in other comprehensive income amounted to HK\$2,359,000.</p> <p>The fair value of the 13% equity interest in Coulman International is determined semi-annually based on the discounted cash flows from the available-for-sale investment, performed with the assistance of an independent valuer, involved management’s estimation of the future cash flows from the investment and discount rates applicable to its business. The management also determined whether the decline in fair value of the investment is significant or prolonged in order to conclude if such decline in fair value should be dealt with in equity or profit or loss accounts. Based on its assessment of the magnitude of the decrease in fair value and the length of time of which the fair value been lower than the Group’s original investment cost in the investee, the management concluded that an impairment loss in respect of Coulman International for the year ended 31st December, 2017 should be recognised.</p>	<p>Our procedures in relation to impairment assessment of the available-for-sale investment in Coulman International included:</p> <ul style="list-style-type: none"> • Understanding the Group’s internal control to approve and review the valuation prepared by the independent valuer, which is the basis for the Group to determine the recoverable amount of the available-for-sale investment; • Evaluating the competence, capabilities and objectivity of the independent valuers; • Evaluating the appropriateness of management’s conclusion of whether the decline in fair value of the available-for-sale investment is prolonged or significant; • Assessing the reasonableness of the valuation model involving (i) management’s estimates of cash flows from the available-for-sale investment, with reference to the historical performance and the latest budgets of the investee approved by its management and (ii) discount rates used by the management by comparing the data derived externally to the Group’s own inputs of the current market risk-free rate of interest as well as the industry specific risk factor of the natural gas business; and • Evaluating the historical accuracy of the management’s assessment by comparing the historical estimates to actual parameters in current year.



INDEPENDENT AUDITOR'S REPORT

Key Audit Matters – continued

Key audit matter

How our audit addressed the key audit matter

Impairment assessment of goodwill allocated to the provision of financial services segment

We identified the impairment assessment of goodwill allocated to the provision of financial services segment (the “Segment”) as a key audit matter due to the involvement of significant management judgement and assumptions in the impairment assessment.

As disclosed in note 20 to the consolidated financial statements, the carrying amount of goodwill amounted to HK\$14,553,000 as at 31st December, 2017. For the purpose of impairment assessment as disclosed in note 21 to the consolidated financial statements, the management of the Group determined the recoverable amount based on fair value less costs of disposal calculation and engaged an independent valuer to assess the fair value of the Segment as at 31st December, 2017. The fair value of the Segment is determined based on the cash flow projections based on financial budgets prepared by the management of the Group with reference to past performance and expectation for market developments. The key assumptions used in the determination of the fair value included the growth rate and discount rate of the Segment.

Based on the management's assessment, there is no impairment of goodwill as at 31st December, 2017.

Our procedures in relation to the impairment assessment of goodwill allocated to the Segment included:

- Obtaining an understanding of how management performed the impairment assessment of goodwill including the valuation model adopted and assumptions used;
- Evaluating the competence, capabilities and objectivity of the independent valuer engaged by the management of the Group;
- Involving our internal valuation specialists to assess the appropriateness of the valuation model used by the independent valuer and reasonableness of the discount rate used with reference to the current market risk-free rate of interest and industry specific risk factors;
- Evaluating the reasonableness of the management's estimates and key assumptions including the growth rate with reference to the historical performance and the latest budgets; and
- Evaluating the appropriateness and adequacy of disclosures of the impairment assessment of goodwill allocated to the Segment in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Other Information

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

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

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

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

As part of an audit in accordance with HKSAAs, 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.

INDEPENDENT AUDITOR'S REPORT

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December, 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Revenue	7	413,861	467,138
Cost of sales		(481,304)	(795,684)
Gross loss		(67,443)	(328,546)
Other income	9	13,270	17,460
Other gains and losses	10	200,966	181,721
Selling and distribution costs		(23,209)	(35,208)
Administrative expenses		(130,192)	(146,631)
Finance costs	11	(95,210)	(38,969)
Loss before taxation	12	(101,818)	(350,173)
Income tax (expense) credit	13	(429)	405
Loss for the year		(102,247)	(349,768)
Other comprehensive income (expense) that may be subsequently reclassified to profit or loss			
Exchange differences arising on translation of foreign operations		7,327	(56,651)
Fair value loss on available-for-sale financial assets		(13,061)	-
Reclassification of investment revaluation reserve to profit or loss on impairment of an available-for-sale investment		15,420	-
Reclassification of translation reserve to profit or loss upon disposal of subsidiaries	33	(43,851)	10,986
		(34,165)	(45,665)
Total comprehensive expense for the year		(136,412)	(395,433)
(Loss) profit for the year attributable to:			
Owners of the Company		(101,333)	(349,771)
Non-controlling interests		(914)	3
		(102,247)	(349,768)
Total comprehensive (expense) income attributable to:			
Owners of the company		(135,498)	(395,436)
Non-controlling interests		(914)	3
		(136,412)	(395,433)
Loss per share, in HK cents	17		
Basic		(2.37)	(46.34)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2017

	Notes	2017 HK\$'000	2016 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	18	276,239	334,671
Prepaid lease payments	19	44,479	43,500
Deposit paid for acquisition of prepaid lease payments and property, plant and equipment		14,221	13,309
Goodwill	20	14,553	–
Available-for-sale investments	22	84,315	97,376
Other assets	32	–	16,000
		<u>433,807</u>	<u>504,856</u>
CURRENT ASSETS			
Prepaid lease payments	19	1,121	1,049
Held-for-trading investments	23	2,565	–
Inventories	24	28,635	46,595
Trade and other receivables, deposits and prepayments	25	172,086	105,274
Tax recoverable		1,572	1,572
Bank balances and cash	26	62,435	107,996
		<u>268,414</u>	<u>262,486</u>
Assets classified as held for sale	18 & 33	<u>7,792</u>	<u>114,313</u>
		<u>276,206</u>	<u>376,799</u>
CURRENT LIABILITIES			
Trade and other payables	27	162,127	153,693
Tax liabilities		1,319	783
Bank and other borrowings – due within one year	28	302,449	590,396
Bank overdrafts	28	149	68,128
Obligations under finance leases	29	132	–
		<u>466,176</u>	<u>813,000</u>
Liabilities associated with assets classified as held for sale	33	<u>–</u>	<u>133,703</u>
		<u>466,176</u>	<u>946,703</u>
NET CURRENT LIABILITIES		<u>(189,970)</u>	<u>(569,904)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>243,837</u>	<u>(65,048)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2017

	Notes	2017 HK\$'000	2016 HK\$'000
CAPITAL AND RESERVES			
Share capital	30	53,967	8,467
Reserves		<u>82,878</u>	<u>(98,118)</u>
Equity attributable to owners of the Company		136,845	(89,651)
Non-controlling interests		<u>1,909</u>	<u>(1)</u>
		<u>138,754</u>	<u>(89,652)</u>
NON-CURRENT LIABILITIES			
Bank and other borrowings – due after one year	28	76,122	20,860
Obligations under finance leases	29	517	–
Amounts due to related parties	38(a)	24,800	–
Deferred tax liabilities	31	<u>3,644</u>	<u>3,744</u>
		<u>105,083</u>	<u>24,604</u>
		<u>243,837</u>	<u>(65,048)</u>

The consolidated financial statements on pages 61 to 137 were approved and authorised for issue by the board of directors on 29 March 2018 and are signed on its behalf by:

MR. POON SUM
DIRECTOR

MR. CHEUNG TAT CHUNG
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2017

	Attributable to owners of the Company								Non-controlling interests	Total	
	Share capital	Share premium	Contributed surplus	Special reserves	Statutory reserves	Investment revaluation reserve	Translation reserve	Accumulated losses			Sub-total
	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000 (Note b)	HK\$'000 (Note c)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st January, 2016	7,057	431,560	69,447	24,673	15,127	-	179,819	(464,092)	263,591	-	263,591
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	(56,651)	-	(56,651)	-	(56,651)
Reclassification of translation reserve to profit or loss upon disposal of a subsidiary	-	-	-	-	-	-	10,986	-	10,986	-	10,986
(Loss) profit for the year	-	-	-	-	-	-	-	(349,771)	(349,771)	3	(349,768)
Total comprehensive (expense) income for the year	-	-	-	-	-	-	(45,665)	(349,771)	(395,436)	3	(395,433)
Ordinary shares issued	1,410	43,005	-	-	-	-	-	-	44,415	-	44,415
Transaction costs attributable to issue of new ordinary shares	-	(2,221)	-	-	-	-	-	-	(2,221)	-	(2,221)
Acquisition of a subsidiary (note 32)	-	-	-	-	-	-	-	-	-	(4)	(4)
At 31st December, 2016	8,467	472,344	69,447	24,673	15,127	-	134,154	(813,863)	(89,651)	(1)	(89,652)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	7,327	-	7,327	-	7,327
Fair value loss on available-for-sale financial assets	-	-	-	-	-	(13,061)	-	-	(13,061)	-	(13,061)
Reclassification of investment revaluation reserve to profit or loss on impairment of an available-for-sale investment	-	-	-	-	-	15,420	-	-	15,420	-	15,420
Reclassification of translation reserve to profit or loss upon disposal of subsidiaries	-	-	-	-	-	-	(43,851)	-	(43,851)	-	(43,851)
Loss for the year	-	-	-	-	-	-	-	(101,333)	(101,333)	(914)	(102,247)
Total comprehensive income (expense) for the year	-	-	-	-	-	2,359	(36,524)	(101,333)	(135,498)	(914)	(136,412)
Ordinary shares issued	45,500	318,500	-	-	-	-	-	-	364,000	-	364,000
Transaction costs attributable to issue of new ordinary shares	-	(4,969)	-	-	-	-	-	-	(4,969)	-	(4,969)
Deemed contributions from a shareholder and a related company arising from non-interest bearing advances therefrom	-	-	3,785	-	-	-	-	-	3,785	-	3,785
Acquisition of subsidiaries (note 32)	-	-	-	-	-	-	-	-	-	1,614	1,614
Acquisition of additional interest in a subsidiary	-	-	-	(822)	-	-	-	-	(822)	822	-
Disposal of subsidiaries (note 33(b))	-	-	-	-	-	-	-	-	-	388	388
At 31st December, 2017	53,967	785,875	73,232	23,851	15,127	2,359	97,630	(915,196)	136,845	1,909	138,754

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2017

Notes:

- (a) The contributed surplus of the Group represent (i) the excess of the combined net assets of the subsidiaries acquired and the acquisition of amount due to a shareholder from Interlink Atlantic Limited (being the holding company of companies comprising the group before group reorganisation carried out in 2005), over the nominal value of the share capital of the Company issued in exchange thereof pursuant to the group reorganisation; less (ii) dividend paid approved by shareholders pursuant to the memorandum and articles of association of the Company; and (iii) deemed contributions arising from non-interest bearing advances from a shareholder and a related company held by this shareholder and his spouse.
- (b) Special reserves of the Group represent (i) the difference between the nominal value of share capital issued by Interlink Atlantic Limited, the Company's subsidiary, and the nominal value of the share capital of subsidiaries acquired by Interlink Atlantic Limited on 23rd September, 2004; (ii) the contribution from non-controlling interests of net assets value shared by them to a former shareholder of Interlink Atlantic Limited; and (iii) the difference between the amount by which the non-controlling interest is adjusted and the consideration paid for the change in the Group's ownership interest in LW Asset Management Advisors Limited, an indirect non-wholly owned subsidiary of the Company, that do not result in changes in control over that subsidiary.
- (c) The Group's statutory reserves represent reserves required to be appropriated from profit after taxation of the Company's subsidiaries established in the People's Republic of China ("PRC") and Macau under PRC or Macau laws and regulations. In accordance with relevant PRC and Macau Company Laws and Regulations, the PRC and Macau companies are required to transfer 10% to 25% of their profits after taxation computed in their statutory financial statements presented under the relevant accounting principles and financial regulations applicable to the enterprises established in the PRC/Macau to the statutory surplus reserves until the reserve balance reaches 50% of their paid-in capital.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2017

	2017 HK\$'000	2016 HK\$'000
OPERATING ACTIVITIES		
Loss before taxation	(101,818)	(350,173)
Adjustments for:		
Finance costs	95,210	38,969
Bank interest income	(806)	(1,291)
Interest income on loan receivables	(2,913)	–
Depreciation of property, plant and equipment	43,288	64,805
Amortisation of prepaid lease payments	1,095	1,460
Amortisation of other assets	–	55
Loss on disposal/written off of property, plant and equipment and prepaid lease payments	756	26,615
Gain on disposal of subsidiaries	(72,366)	(328,995)
Gain on debt restructuring	(166,396)	–
Gain on surrender of insurance policies	–	(17)
Gain on written back of trade and other payables	(1,277)	–
Gain on fair value changes of held-for-trading investments	(918)	–
Write-down of inventories	16,521	217,540
Impairment losses recognised on property, plant and equipment and prepaid lease payments	32,534	59,110
Reversal of impairment losses recognised on property, plant and equipment	(10,906)	–
Impairment loss recognised on available-for-sale investments	15,420	42,124
Impairment losses recognised on trade and other receivables (net of bad debt recovered)	4,697	9,381
Operating cash flows before movements in working capital	(147,879)	(220,417)
Decrease in inventories	538	88,171
(Increase) decrease in trade and other receivables, deposits and prepayments	(95,666)	99,852
Increase in held-for-trading investments	(1,647)	–
Increase (decrease) in trade and other payables	23,951	(85)
Cash generated used in operations	(220,703)	(32,479)
Income tax refunded	–	1,568
NET CASH USED IN OPERATING ACTIVITIES	(220,703)	(30,911)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2017

	Notes	2017 HK\$'000	2016 HK\$'000
INVESTING ACTIVITIES			
Repayment of loans to independent third parties		34,000	–
Refund of deposit paid for acquisition of investment	25	18,000	–
Deposit received on disposal of property, plant and equipment	18	6,301	–
Proceeds on disposal of property, plant and equipment and prepaid lease payments		4,076	10,138
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	32	1,832	19
Interest received		806	1,291
Advance to National Asia as defined in note 2		(2,298)	(2,334)
Purchase of property, plant and equipment		(7,003)	(4,531)
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	33	(7,904)	51,282
Loans to independent third parties		(42,000)	–
Withdrawal of pledged bank deposits		–	49,125
Proceeds from redemption of other asset		–	11,072
Acquisition of an available-for-sale investment		–	(9,500)
Deposit paid for acquisition of a subsidiary		–	(16,000)
NET CASH FROM INVESTING ACTIVITIES		5,810	90,562
FINANCING ACTIVITIES			
Repayment of bank borrowings and related finance costs related to debt restructuring		(352,608)	–
Repayments of advances from former related parties		(29,248)	–
Repayments of other borrowings		(25,000)	–
Redemption of bonds		(21,976)	–
Repayments of bank borrowings not related to debt restructuring		(21,278)	(346,649)
Expenses on issue of bonds		(15,309)	(2,320)
Interest paid		(13,394)	(38,414)
Expenses on issue of shares		(4,969)	(2,221)
Repayments of obligations under finance leases		(63)	–
Advances from related parties		27,963	–
proceeds from issue of bonds		136,658	14,261
Proceeds from other borrowings		185,137	33,000
proceeds from issue of shares		364,000	44,415
New bank borrowings raised		–	246,648
NET CASH FROM (USED IN) FINANCING ACTIVITIES		229,913	(51,280)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2017

	<i>Note</i>	2017 HK\$'000	2016 HK\$'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		15,020	8,371
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		2,698	(4,150)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		<u>44,568</u>	<u>40,347</u>
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER		<u>62,286</u>	<u>44,568</u>
Cash and cash equivalents represented by:			
Bank balances and cash		62,435	107,996
Bank balances and cash classified as assets held for sale		–	4,700
Bank overdrafts	28	<u>(149)</u>	<u>(68,128)</u>
		<u>62,286</u>	<u>44,568</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

1. GENERAL AND BASIS OF PREPARATION

GTI Holdings Limited (the “Company”, formerly known as Addchance Holdings Limited) was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 9th June, 2004 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its immediate and ultimate holding company is Gold Train Investments Limited which was incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are set out in the section headed “Corporate Information” of the annual report.

The Company acts as an investment holding company. The activities of the Company’s principal subsidiaries are set out in note 39.

Pursuant to a special resolution passed at the extraordinary general meeting of the Company held on 23rd February, 2018 and upon the approval from the Registrar of Companies in the Cayman Islands, the name of the Company was changed from Addchance Holdings Limited to GTI Holdings Limited with effect from 23rd March, 2018.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Company and its subsidiaries (the “Group”) in light of the fact that (a) the Group incurred a loss of approximately HK\$102,247,000 for the year ended 31st December, 2017 and as of that date, the Group’s current liabilities exceeded its current assets by approximately HK\$189,970,000; and (b) the legal proceeding with a former related party was still pending.

The directors of the Company have performed an assessment of the Group’s future liquidity and cash flows, taking into account the following relevant matters:

(i) Outcome of the legal proceeding with a former related party

During the year ended 31st December, 2016, the Group received a writ of summons from an entity, to the best knowledge of the directors of the Company, beneficially owned by a former director and a former shareholder of the Company. The amount claimed by this former related party against an indirectly wholly-owned subsidiary of the Company, Addchance Limited is approximately HK\$20,950,000.

The directors of the Company have instructed its legal advisers to review the details of this legal proceeding and provide further legal advices. The directors of the Company believe that the Group has sufficient grounds to defend against the legal claim. However, the ultimate outcome of this legal proceeding could not be assessed at this stage. As at 31st December, 2017, the amount claimed in this proceeding of HK\$20,950,000 is included in trade and other payables on the consolidated statement of financial position.

(ii) Fund raising activities

The Group is actively identifying alternative sources of funding and is considering issue of debt or equity financial instruments to improve operating cash flows and its financial position and to further support its potential investments in new business development opportunities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

1. GENERAL AND BASIS OF PREPARATION – continued

(iii) Implementation of active cost-control and cost-saving measures

The Group is actively implementing cost-control and cost-saving measures to improve operating cash flows and its financial position and the directors of the Company believe that the performance of the Group's textile business will be significantly improved in the forthcoming year.

The directors of the Company consider that after taking into account the internal resources, favourable outcomes of the legal proceeding, implementation of cost-control and cost-saving measures and any further fund raising activities should needs arise, the Group will have sufficient working capital to satisfy its present requirements for at least the next twelve months from the date of approval of these consolidated financial statements. However, should any unfavourable outcomes of the legal proceeding emerge and the Group is unable to find alternative sources of funding, the Group may not be able to operate as a going concern, in which case adjustments might have to be made to the carrying values of the Group's assets to state them at their recoverable amounts, to provide for any further liabilities which might arise and/or to reclassify its non-current assets and non-current liabilities to current assets and current liabilities.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and revised IFRSs issued by the International Accounting Standards Board (“IASB”) for the first time in the current year.

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014-2016 Cycle

Except as disclosed below, the application of the amendments to IFRSs 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.

Amendments to IAS 7 “Disclosure Initiative”

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

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

A reconciliation between the opening and closing balances of these items is provided in note 40. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 40, the application of these amendments has had no impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) – continued

New and revised IFRSs in issue but not yet effective

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

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

¹ Effective for annual periods beginning on or after 1st January, 2018

² Effective for annual periods beginning on or after 1st January, 2019

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1st January, 2021

IFRS 9 “Financial Instruments”

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) – continued

IFRS 9 “Financial Instruments” – continued

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

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

Classification and Measurement:

- Equity securities classified as available-for-sale (“AFS”) investments carried at fair value as disclosed in note 22: the Group’s investment in Coulman International Limited (“Coulman International”) qualified for designation as measured at FVTOCI under IFRS 9. However, the Group has chosen not to elect the option for the designation and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of IFRS 9, investment revaluation reserve of HK\$2,359,000 related to Coulman International will be transferred to accumulated losses at 1st January, 2018.
- Equity securities classified as AFS investments carried at cost less impairment as disclosed in note 22: the Group’s investment in National Asia Group Limited (“National Asia”) qualified for designation as measured at FVTOCI under IFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investment revaluation reserve. Upon initial application of IFRS 9, the fair value change relating to National Asia, if any, would be adjusted to investment revaluation reserve as at 1st January, 2018.
- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

Impairment:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) – continued

IFRS 15 “Revenue from Contracts with Customers”

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

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

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

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

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

One of the principal businesses of the Group is trading of petroleum. Currently under IAS 18, the Group recognises the revenue from the sale of petroleum when products are delivered and titles are passed and considers its significant exposure to inventory risk, credit risk of customers and latitude in establishing prices to determine whether the Group is acting as a principal or an agent. IFRS 15 has established new requirements and guidance on the principal versus agent considerations.

The directors of the Company anticipate that the application of IFRS 15 may result in change in presentation and more disclosures but will not have a material impact on the results of the Group.

IFRS 16 “Leases”

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

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) – continued

IFRS 16 “Leases” – continued

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. Subsequent, the lease liability is adjusted for interest and lease payments as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion, both of which will be presented as financing cash flows by the Group.

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

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

Furthermore, extensive disclosure are required by IFRS 16.

As at 31st December, 2017, the Group as lessee has non-cancellable operating lease commitments of HK\$12,508,000 as disclosed in note 34. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 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.

In addition, the Group currently considers refundable rental deposits paid of HK\$1,269,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16 such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

Except as described above, the directors of the Company consider that the application of other new and revised IFRSs would not have material impact to the Group’s consolidated financial statement in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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

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

A fair value measurement of a non-financial asset takes into account a market participants 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.

The principal accounting policies are set out as 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of consolidation – continued

Profit or loss and each component 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 intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs).

Business combinations

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations – continued

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

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

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

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification, except if the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset (or disposal group).

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition

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

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

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

Service income is recognised when services are provided.

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Leasing – continued

Leasehold land and building

When the Group makes payments for a property interest which 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 leases in which case the entire property is accounted 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 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.

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 recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) 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 translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange 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 the translation reserve.

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

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

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Retirement benefits costs

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

Short-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 IFRS requires or permits the inclusion of the benefit in the cost of an asset.

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

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 loss before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from 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, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

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

Property, plant and equipment

Property, plant and equipment including building held for use in the production or supply of goods or services, 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.

Depreciation is recognised so as to write off the cost of assets other than properties under construction, less their residual values over their 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.

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.

Inventories

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

Financial instruments

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

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

Financial assets

The Group's financial assets are classified into loans and receivables, financial assets at fair value through profit or loss ("FVTPL") and AFS financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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 excludes any dividend or interest earned on the financial assets and is included in the 'other income and other gains and losses' line item. Fair value is determined in the manner described in note 6(c).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses.

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

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. The Group designated the equity investment in unlisted entities as AFS financial assets on initial recognition.

Equity investments 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 the investment revaluation reserve 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 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets

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

For 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 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 in the portfolio past the average credit period of 30-120 days, 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 estimated future cash flows discounted at the financial asset's original effective interest rate.

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

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss 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 under the heading of investment revaluation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, amounts due to related parties, bank and other borrowings and bank overdrafts are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

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

The Group derecognises financial 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment on assets other than goodwill (see the accounting policy in respect of goodwill above)

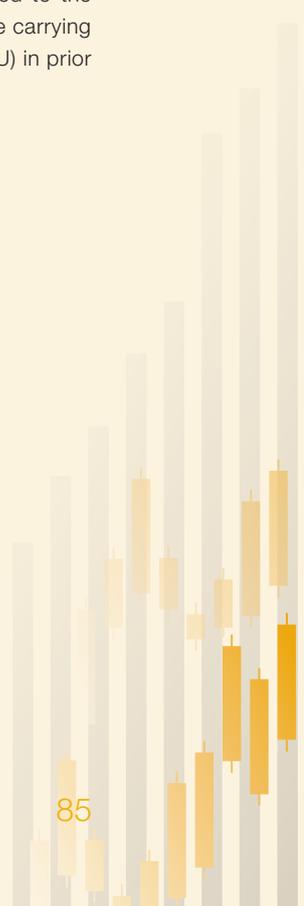
At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in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

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit (“CGU”) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGU 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 CGU) for which the estimates of future cash flows have not been adjusted.

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

4. 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 estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Provision for inventories

The Group noticed that operating environments of the textile industry was still challenging during the year due to the sluggish demands for textile products in the domestic and foreign markets. However, since a substantial portion of the Group's overhead costs of its manufacturing factories in the PRC and Cambodia, including mainly the factory labour costs and depreciations of property, plant and equipment used in the production processes, is relatively fixed, a negative gross margin of the textile business was resulted in this and last year. In this regards, the management of the Group considers that the challenging operating environments of the Group's textile products imposed strong pressures to the net realisable values of the inventories.

The management of the Group reviews the net realisable values of the inventories at the end of the reporting period based primarily on the aged analysis of inventories, latest selling prices and current market conditions, less the estimates of cost of completion and cost to sell for the products, to determine if any provision to write off or write down the aged and obsolescence inventories to their net realisable values is necessary. Where the actual net realisable values of the inventories are less than expected, a material provision may arise. As at 31st December, 2017, the inventories amounted to HK\$28,635,000 (2016: HK\$46,595,000). During the year ended 31st December, 2017, write-down of inventories of HK\$16,521,000 (2016: HK\$217,540,000) has been made after considering the facts above.

Impairment of property, plant and equipment and prepaid lease payments

Management estimates the useful lives of various categories of property, plant and equipment and prepaid lease payment according to the industrial experiences and norm. As a result of the sluggish demand for textile products in the domestic and foreign markets, the intensified international competitions and the rapid developments of textile products in neighbouring countries in Southeast Asia, the Group's production factories were not operated in their full scale during both years. The directors of the Company consider that the rapid changing macro-economic environments of the cotton textile industry caused adverse effects to the property, plant and equipment and the land costs paid for the production factories of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Impairment of property, plant and equipment and prepaid lease payments – continued

The recoverable amount calculation requires the management of the Group to estimate higher of fair value less costs of disposal and value in use of those assets as the recoverable amount. The management of the Group reviews the recoverable amounts of the Group's property, plant and equipment and prepaid lease payments by looking into both their value in use and fair values less costs of disposal, based on the future development plans of different locations in the PRC and Cambodia where these property, plant and equipment and prepaid lease payments situated. The Group takes into consideration of the future revenue growth rates and discount rates for its textile business when estimating value in use of these assets. Where the actual future cash flows are less than expected, a material impairment loss may arise. The fair value less costs of disposal of these assets have been determined with the assistance of independent valuers. Further details are set out in note 18. During the year, the Group recognised an aggregate impairment loss of HK\$32,534,000 (2016: HK\$59,110,000) in respect of its property, plant and equipment and prepaid lease payments and reversal of impairment loss of HK\$10,906,000 (2016: nil) in respect of certain of its property, plant and equipment. As at 31st December, 2017, the carrying amounts of property, plant and equipment and prepaid lease payments net of impairment amounted to approximately HK\$276,239,000 and HK\$45,600,000, respectively (2016: HK\$334,671,000 and HK\$44,549,000, respectively) (notes 18 and 19).

Impairment of an AFS investment in Coulman International and valuation process

In estimating the fair value of the Group's AFS investment in Coulman International, which is held as to 13% by the Group, the management uses market-observable data to the extent it is available. Where such information is not available, the Group engages third-party qualified valuers to perform the valuation. The management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management reports to the board of directors of the Company semi-annually to explain the cause of fluctuations in the fair value of the asset.

The directors of the Company consider, on a semi-annually basis, that the actual performance of Coulman International was less favourable than estimated by its management and an impairment loss of HK\$15,420,000 (2016: HK\$35,455,000) was recognised in profit or loss for the year ended 31st December, 2017. In determining whether the decline in fair value should be recognised in equity or profit or loss accounts, the management considers if such decrease was prolonged or significant or not prolonged nor significant by a number of factors. Based on its assessment of the magnitude of the decrease in fair value and the length of time of which the fair value been lower than the Group's original investment cost in the investee, it is concluded that the fair value decrease of the investee has been significant and prolonged in both of the years ended 31st December, 2016 and 2017, and the amounts of such decline in fair value have been included in profit or loss for both years. Any subsequent fair value increase to an impairment loss previously recognised in profit or loss is not reversed through profit or loss. Further details of the valuation are set out in note 22.

Impairment of goodwill

The Group tests, at least annually, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 3. The recoverable amount of the Group's CGU to which goodwill has been allocated has been determined based on fair value less cost of disposal calculation, where the key input parameters include the growth rate and discount rate of the relevant business segment. This calculation require the use of estimates. Where the actual future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a further impairment loss may arise. Details of the impairment testing are set out in note 21.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

5. 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 the shareholders through the optimisation of the debts and equity balance. The Group's overall strategy remains unchanged from prior years.

The directors of the Company consider that the capital structure of the Group consists of net debts, which includes bank and other borrowings, bank overdrafts and amounts due to related parties, net of cash and cash equivalents, and shareholders' surplus.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues as well as issue of new debt or redemption of existing debts.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 HK\$'000	2016 HK\$'000
Financial assets		
<i>Loans and receivables</i>		
Trade and other receivables	97,343	98,700
Bank balances and cash	62,435	107,996
	<u>159,778</u>	<u>206,696</u>
<i>Available-for-sale investments</i>	<u>84,315</u>	<u>97,376</u>
<i>Held-for-trading investments</i>	<u>2,565</u>	<u>–</u>
Financial liabilities		
<i>Amortised cost</i>		
Trade and other payables	79,681	102,257
Amounts due to related parties	24,800	–
Bank and other borrowings	378,571	611,256
Bank overdrafts	149	68,128
	<u>483,201</u>	<u>781,641</u>

(b) Financial risk management objectives and policies

The Group's major financial instruments include equity investments, trade and other receivables, amounts due to related parties, bank balances and cash, trade and other payables, bank and other borrowings and bank overdrafts. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

6. FINANCIAL INSTRUMENTS – continued

(b) Financial risk management objectives and policies – continued

Market risk

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Also, certain trade receivables, other receivables, bank balances, trade and other payables and bank borrowings of the Group are denominated in foreign currencies.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
United State dollars ("USD")	49,411	91,247	11,002	383,144
Renminbi ("RMB")	1,602	522	972	–
Euro ("EUR")	1,092	4	–	–

Sensitivity analysis

The Group is mainly exposed to USD, RMB and EUR.

The following table details the Group's sensitivity to a 5% (2016: 5%) increase and decrease in Hong Kong dollars against the relevant foreign currencies. 5% (2016: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items other than the items denominated in USD as the directors consider that the Group's exposure to USD is insignificant on the ground that Hong Kong dollars is pegged to USD. A negative number below indicates an increase in post-tax loss where Hong Kong dollars strengthen 5% against the relevant currencies. For a 5% (2016: 5%) weakening of Hong Kong dollars against the relevant currencies, there would be an equal and opposite impact on the profit of loss, and the balances below would be opposite.

	RMB		EUR	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Loss for the year	(25)	(21)	(46)	–

In management's opinion, a sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the years ended 31st December, 2017 and 31st December, 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

6. FINANCIAL INSTRUMENTS – continued

(b) Financial risk management objectives and policies – continued

Market risk – continued

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank and other borrowings as set out in note 28.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings as set out in notes 26 and 28, respectively.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR"), London Interbank Offered Rate ("LIBOR") and People's Bank of China's basic borrowing rate arising from the Group's variable-rate bank balances and bank borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to variable-rate bank borrowings at the end of reporting period. The analysis is prepared assuming variable-rate bank borrowings outstanding at the end of reporting period were outstanding for the whole year. A 50 basis points (2016: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2016: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31st December, 2017 would increase/decrease by HK\$377,000 (2016: HK\$2,107,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

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

(iii) Equity price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The Group's equity price risk is concentrated on equity instruments quoted on the Australian Securities Exchange. Management manages the exposure to equity price risk by performing regular assessment to the latest changes of market condition.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period. If the prices of the respective held-for-trading investments had been 10% (2016: N/A) higher/lower, the post-tax loss of the Group for the year would decrease/increase by HK\$257,000 (2016: N/A) as a result of the changes in fair value of held-for trading investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

6. FINANCIAL INSTRUMENTS – continued

(b) Financial risk management objectives and policies – continued

Credit risk

As at 31st December, 2017, the carrying amount of the respective financial assets as stated in the consolidated statement of financial position best represents 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.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

At 31st December, 2017, the Group has a concentration of credit risk in its five largest customers, which accounted for HK\$13,027,000 (2016: HK\$25,835,000) of the Group's trade receivables in aggregate. Management identified such concentration of credit risk by considering (i) the number of counterparties; (ii) similar characteristics of these customers such as garment and apparel retailing and wholesale industry and regions they operate; and (iii) the amount of risk exposure associated with the individual debtor. The Group normally grant a credit term of 30 days to 120 days to these customers. By regularly reviewing subsequent settlement of these trade receivables, the directors are of the opinion that the default risks of these trade receivables are being closely monitored. Other than that, the Group does not have any other significant concentration of credit risk.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Liquidity risk

The Group's current liabilities exceeded its current assets by HK\$189,970,000 as at 31st December, 2017 and the Group recorded a loss of HK\$102,247,000 for the year ended 31st December, 2017. The Group is exposed to liquidity risk if it is not able to raise sufficient fund to meet its financial obligations.

The directors of the Company have given careful consideration to the future liquidity of the Group, details of which are set out in note 1.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause and amounts being demanded by the Banks (as defined in note 28) for immediate repayment (as at 31st December, 2016) are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

6. FINANCIAL INSTRUMENTS – continued

(b) Financial risk management objectives and policies – continued

Liquidity risk – continued

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

	Weighted average interest rate %	On demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-2 years HK\$'000	2-5 years HK\$'000	More than 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
2017									
Non-derivative financial liabilities									
Trade and other payables	-	79,468	213	-	-	-	-	79,681	79,681
Amounts due to related parties	-	-	-	-	27,963	-	-	27,963	24,800
Bank borrowings									
– variable rate	5.8	90,034	-	-	-	-	-	90,034	90,034
– fixed rate	8.6	16,809	-	-	-	-	-	16,809	16,809
Bonds and other borrowings									
– fixed rate	23.0	-	6,597	18,062	243,879	29,531	15,856	313,925	271,728
Bank overdrafts	13.0	149	-	-	-	-	-	149	149
Obligations under finance leases	2.5	-	4.0	120	160	401	-	721	649
		<u>186,460</u>	<u>6,850</u>	<u>18,182</u>	<u>272,002</u>	<u>29,932</u>	<u>15,856</u>	<u>529,282</u>	<u>483,850</u>

	Weighted average interest rate %	On demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-2 years HK\$'000	2-5 years HK\$'000	More than 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
2016									
Non-derivative financial liabilities									
Trade and other payables	-	98,291	3,966	-	-	-	-	102,257	102,257
Bank borrowings									
– variable rate	3.8	436,545	-	-	-	-	-	436,545	436,545
– fixed rate	6.1	17,079	67,920	21,371	-	17,303	-	123,673	119,902
Bonds and other borrowings									
– fixed rate	18.4	-	33,891	1,007	-	1,788	19,002	55,688	54,809
Bank overdrafts	13.0	68,128	-	-	-	-	-	68,128	68,128
		<u>620,043</u>	<u>105,777</u>	<u>22,378</u>	<u>-</u>	<u>19,091</u>	<u>19,002</u>	<u>786,291</u>	<u>781,641</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

6. FINANCIAL INSTRUMENTS – continued

(c) Fair value

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's 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 instruments are determined (in particular, the valuation techniques and inputs used), as well as the level of fair value hierarchy into which the fair value measurements are categorised (i.e. Levels 1 to 3 as set out in note 3) based on the degree to which the inputs to the fair value measurements are observable.

Financial assets	Fair value		Fair value hierarchy	Valuation techniques and key inputs
	2017 HK\$'000	2016 HK\$'000		
Unlisted equity securities, classified as available-for-sale investments	81,484	94,545	Level 3	Income approach based on unobservable inputs including growth rates and discount rate
Listed equity securities, classified as held-for-trading investments	2,565	–	Level 1	Quoted bid prices in an active market

There were no transfers between Level 1, 2 and 3 in the current and prior years.

Available-for-sale investments

As at 31st December, 2017, available-for-sale investments of HK\$81,484,000 (2016: HK\$94,545,000) was valued by reference to a Level 3 fair value measurement using discounted cash flows based on unobservable inputs including growth rates, operating margin and discount rate which is a pre-tax rate taking into account the risks specific to the available-for-sale investments. Where there was material change in the fair value of available-for-sale investments, the cause of the fluctuations would be reported to the management of the Group.

An increase in the growth rates and operating margin used in discounted cash flows would result in increase in the carrying amount of the available-for-sale investments, and vice versa. A slight increase in discount rate used in discounted cash flows would result in decrease in the carrying amount of the available for-sale investments, and vice versa.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

6. FINANCIAL INSTRUMENTS – continued

(c) Fair value – continued

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis – continued

Available-for-sale investments – continued

Reconciliation of Level 3 fair value measurements

	Available-for-sale investments HK\$'000
At 1st January, 2016	130,000
Unrealised fair value loss	<u>(35,455)</u>
At 31st December, 2016	94,545
Unrealised fair value loss	<u>(13,061)</u>
At 31st December, 2017	<u>81,484</u>

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The directors of the Company consider that the carrying amounts of these financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values.

7. REVENUE

Revenue represents the amounts received and receivable for goods sold excluding value added taxes, less returns and allowances and services provided by the Group to outside customers during the year.

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

	2017 HK\$'000	2016 HK\$'000
Production, sale and trading of textile products	268,312	467,105
Trading of petroleum	144,805	33
Provision of financial services	<u>744</u>	<u>–</u>
	<u>413,861</u>	<u>467,138</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

8. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker (“CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. This is also the basis upon which the Group is organised.

The Group had six operating and reportable segments under IFRS 8 for the year ended 31st December, 2016, when the Group’s operation included principally the production and sale of cotton yarn, production and sale of knitted sweater, production and sale of dyed yarns, provision of dyed service, trading of cotton yarns and trading of petroleum.

During the year ended 31st December, 2017, upon change of the Company’s executive directors, the CODM has revisited and determined that the number of the Group’s operating and reportable segments has been modified as three, namely (i) Production, sale and trading of textile products, (ii) Trading of petroleum, and (iii) Provision of financial services. Comparatives have been restated accordingly.

Segment revenue and results

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

For the year ended 31st December, 2017

	Production, sale and trading of textile products HK\$'000	Trading of petroleum HK\$'000	Provision of financial services HK\$'000	Total HK\$'000
Revenue	268,312	144,805	744	413,861
Segment (loss) profit	(201,173)	2,114	(4,825)	(203,884)
Unallocated expenses				(29,897)
Other income				2,913
Other gains and losses				224,260
Finance costs				(95,210)
Loss before taxation				(101,818)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

8. SEGMENT INFORMATION – continued

Segment revenue and results – continued

For the year ended 31st December, 2016 (restated)

	Production, sale and trading of textile products HK\$'000	Trading of petroleum HK\$'000	Total HK\$'000
Revenue	467,105	33	467,138
Segment (loss) profit	(579,940)	6	(579,934)
Unallocated expenses			(18,125)
Other gains and losses			286,855
Finance costs			(38,969)
Loss before taxation			(350,173)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment (loss) profit represents the (loss) profit before taxation of each segment without allocation of central administration costs, directors' salaries, finance cost and other income and other gains and losses not attributable to segment (loss) profit. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

8. SEGMENT INFORMATION – continued

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segments:

As at 31st December, 2017

	Production, sale and trading of textile products HK\$'000	Trading of petroleum HK\$'000	Provision of financial services HK\$'000	Total HK\$'000
ASSETS				
Segment assets	444,393	22,426	19,982	486,801
Available-for-sale investments				84,315
Held-for-trading investments				2,565
Assets classified as held for sale				7,792
Unallocated corporate assets				128,540
CONSOLIDATED TOTAL ASSETS				710,013
LIABILITIES				
Segment liabilities	105,201	15,123	447	120,771
Unallocated corporate liabilities				450,488
CONSOLIDATED TOTAL LIABILITIES				571,259

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

8. SEGMENT INFORMATION – continued

Segment assets and liabilities – continued

As at 31st December, 2016 (restated)

	Production, sale and trading of textile products HK\$'000	Trading of petroleum HK\$'000	Total HK\$'000
ASSETS			
Segment assets	503,328	–	503,328
Available-for-sale investments			97,376
Assets classified as held for sale			114,313
Unallocated corporate assets			166,638
CONSOLIDATED TOTAL ASSETS			881,655
LIABILITIES			
Segment liabilities	84,626	171	84,797
Liabilities associated with assets classified as held for sale			133,703
Unallocated corporate liabilities			752,807
CONSOLIDATED TOTAL LIABILITIES			971,307

For the purposes of monitoring segment performances and allocating resources among segments, all assets and liabilities are allocated to operating segments on the basis of the revenue earned by individual reportable segments. Segment assets exclude available-for-sale investments, held-for-trading investments, other assets, amounts due from former related parties, tax recoverable, refundable deposit paid for acquisition of an investment, assets classified as held for sale, bank balances and cash, and corporate assets while segment liabilities exclude bank and other borrowings, bank overdrafts, amounts due to former related parties/related parties, tax liabilities, deferred tax liabilities, obligations under finance leases, liabilities associated with assets classified as held for sale, and corporate liabilities. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

8. SEGMENT INFORMATION – continued

Other segment information

The following amounts were provided to the chief operating decision makers for the purposes of performance assessment and resource allocation:

For the year ended 31st December, 2017

	Production, sale and trading of textile products HK\$'000	Trading of petroleum HK\$'000	Provision of financial services HK\$'000	Unallocated HK\$'000	Total HK\$'000
Addition to non-current assets (Note)	3,032	8	134	4,528	7,702
Depreciation of property, plant and equipment	42,571	1	33	683	43,288
Amortisation of prepaid lease payments	1,095	–	–	–	1,095
Loss on disposal/written off of property, plant and equipment and prepaid lease payments	756	–	–	–	756
Gain on disposal of subsidiaries	–	–	–	72,366	72,366
Gain on debt restructuring	–	–	–	166,396	166,396
Gain on fair value changes of held-for-trading investments	–	–	–	918	918
Impairment losses reversed in respect of property, plant and equipment	10,906	–	–	–	10,906
Impairment losses recognised on property, plant and equipment and prepaid lease payments	32,534	–	–	–	32,534
Impairment loss recognised on available-for-sale investment	–	–	–	15,420	15,420
Impairment losses recognised on trade and other receivables	4,697	–	–	–	4,697
Write-down of inventories	16,521	–	–	–	16,521

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

8. SEGMENT INFORMATION – continued

Other segment information – continued

For the year ended 31st December, 2016

	Production, sale and trading of textile products HK\$'000	Trading of petroleum HK\$'000	Unallocated HK\$'000	Total HK\$'000
Addition to non-current assets (Note)	4,531	–	16,000	20,531
Depreciation of property, plant and equipment	64,805	–	–	64,805
Amortisation of prepaid lease payments	1,460	–	–	1,460
Loss on disposal/written off of property, plant and equipment and prepaid lease payments	26,615	–	–	26,615
Gain on disposal of subsidiaries	–	–	328,995	328,995
Impairment losses recognised on property, plant and equipment and prepaid lease payments	59,110	–	–	59,110
Impairment loss recognised on available-for-sale investment	–	–	42,124	42,124
Impairment losses recognised on trade and other receivables	9,381	–	–	9,381
Write-down of inventories	217,540	–	–	217,540

Note: Non-current assets excluded goodwill and financial assets

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

8. SEGMENT INFORMATION – continued

Geographical information

Information about the Group's revenue from external customers is presented based on the location of customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers (Note (i))		Non-current assets (Note (ii))	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
PRC	73,498	210,972	161,308	201,639
Hong Kong	156,345	68,211	15,577	26,849
Other Asian countries	17,501	15,873	158,054	178,992
Europe	122,502	130,280	–	–
North America	44,015	41,802	–	–
	<u>413,861</u>	<u>467,138</u>	<u>334,939</u>	<u>407,480</u>

Notes:

(i) Included in revenue from customers located in Europe are amounts of HK\$82,493,000 (2016: HK\$105,089,000), HK\$8,106,000 (2016: Nil) and HK\$5,815,000 (2016: HK\$184,000) arising from sales to customers based in United Kingdom, Netherlands and Spain, respectively.

(ii) Non-current assets excluded goodwill and financial assets.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group is as follows:

	2017 HK\$'000	2016 HK\$'000
Customer A from segment of trading of petroleum	<u>50,898</u>	<u>–</u>

No individual customer contributed over 10% of the total sales of the Group during the year ended 31st December, 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

9. OTHER INCOME

	2017 HK\$'000	2016 HK\$'000
Bank interest income	806	1,291
Interest income on loan receivables (Note)	2,913	–
Income from sales of scrap materials	2,453	3,198
Income from electricity and steaming charges	–	5,964
Sundry income	7,098	7,007
	<u>13,270</u>	<u>17,460</u>

Note: During the year ended 31st December, 2017, the Group provided independent third parties with loans of HK\$42,000,000 in total, bearing fixed interest rates ranging from 2% to 24% per annum. Loan receivable of HK\$34,000,000 has been fully settled in current year and loan receivable of HK\$8,000,000 was derecognised through a disposal of a subsidiary (note 33(b)).

10. OTHER GAINS AND LOSSES

	2017 HK\$'000	2016 HK\$'000
Gain on surrender of insurance policies	–	17
Gain on disposal of subsidiaries (note 33)	72,366	328,995
Gain on debt restructuring (note 28)	166,396	–
Gain on fair value changes of held-for-trading investments	918	–
Gain on written back of trade and other payables	1,277	–
Net exchange gain (loss)	2,510	(10,061)
Loss on disposal/written off of property, plant and equipment and prepaid lease payments (Note)	(756)	(26,615)
Impairment losses recognised in respect of property, plant and equipment and prepaid lease payments (note 18)	(32,534)	(59,110)
Impairment losses reversed in respect of property, plant and equipment (note 18)	10,906	–
Impairment loss recognised on available-for-sale investments (note 22)	(15,420)	(42,124)
Impairment losses recognised on trade and other receivables (net of bad debt recovered) (Note) (note 25)	(4,697)	(9,381)
	<u>200,966</u>	<u>181,721</u>

Note: In August 2016, the Group has logged an application for voluntary liquidation of a subsidiary, Great Honour Textile Factory Limited ("Great Honour"), which was engaged in production and sale of textile products in Cambodia. The relevant assets of the said subsidiary in Cambodia amounting to HK\$15,182,000 have been taken over by the relevant local authority and the ownership of which does not belong to the Group anymore. Accordingly, property, plant and equipment and trade and other receivables amounting to HK\$12,733,000 and HK\$2,449,000, respectively, were written off or fully impaired during the year ended 31st December, 2016. On 28th October, 2016, a provincial court in Cambodia issued a verdict, pursuant to which the Group has to settle the unpaid salaries and other staff benefits to the relevant workers in the manufacturing plant of Great Honour for an aggregate amount of approximately HK\$22,454,000 and the relevant provision was made during the year ended 31st December, 2016. As at both 31st December, 2016 and 31st December, 2017, no amount has been paid and the above amount was included in accrued salary under trade and other payables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

11. FINANCE COSTS

	2017 HK\$'000	2016 HK\$'000
Interest on bank and other borrowings	94,571	38,969
Interest on finance leases	17	–
Imputed interest expense on amounts due to related parties	622	–
	<u>95,210</u>	<u>38,969</u>

12. LOSS BEFORE TAXATION

	2017 HK\$'000	2016 HK\$'000
Loss before taxation has been arrived at after charging:		
Directors' remuneration (note 14)	5,265	8,485
Other staff costs	136,354	212,504
Retirement benefits scheme contributions, excluding directors	5,029	6,756
Less: capitalised in inventories	<u>(4,383)</u>	<u>(5,482)</u>
Total staff costs	<u>142,265</u>	<u>222,263</u>
Auditor's remuneration	3,880	4,245
Cost of inventories recognised as an expense	481,304	795,684
Write-down of inventories (included in cost of sales)	16,521	217,540
Depreciation of property, plant and equipment	43,288	64,805
Less: capitalised in inventories	<u>(1,818)</u>	<u>(2,994)</u>
	<u>41,470</u>	<u>61,811</u>
Amortisation of prepaid lease payments	1,095	1,460
Amortisation of other assets	<u>–</u>	<u>55</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

13. INCOME TAX EXPENSE (CREDIT)

	2017 HK\$'000	2016 HK\$'000
The charge (credit) comprises:		
Hong Kong Profits Tax		
– Current year	536	–
– Underprovision in prior years	–	11
	<u>536</u>	<u>11</u>
Deferred taxation (note 31)	(107)	(416)
	<u>429</u>	<u>(405)</u>

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 1st January, 2008 onwards.

Pursuant to the relevant laws and regulations in Cambodia, the profit generated from Cambodian subsidiaries of the Company are entitled to exemption from the Cambodian Income Tax until 2018.

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

	2017 HK\$'000	2016 HK\$'000
Loss before taxation	<u>(101,818)</u>	<u>(350,173)</u>
Taxation at the domestic income tax rate of 16.5% (Note)	(16,800)	(57,779)
Tax effect of income not taxable for tax purpose	(41,711)	(55,916)
Tax effect of expenses not deductible for tax purpose	15,790	11,123
Underprovision in prior years	–	11
Tax effect of tax losses incurred by Cambodian subsidiaries	18,175	23,847
Tax effect of tax losses not recognised	41,869	27,912
Tax effect of other deductible temporary differences not recognised	4,833	50,397
Utilisation of tax losses previously not recognised	(21,727)	–
Income tax expense (credit) for the year	<u>429</u>	<u>(405)</u>

Note: The Hong Kong Profits Tax rate of 16.5%, being the tax rate in the jurisdiction where the operations of the Group is substantially based, is used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 9 (2016: 14) directors were as follows:

For the year ended 31st December, 2017

	Executive Director				Non-Executive Director		Independent Non-Executive Director			Total
	Mr. Poon Sum	Mr. Lo Ping	Mr. Zheng Jun Tat	Mr. Cheung Chung	Mr. Chui Chi Yun, Robert	Mr. Zhao Xu	Mr. Chiu Wai Piu	Dr. Tse Kwok Sang	Mr. Chan Shu Kin	
	HK\$'000 (Note vi)	HK\$'000 (Note vii)	HK\$'000 (Note vii)	HK\$'000	HK\$'000 (Note vii)	HK\$'000 (Note iv)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Directors										
- fees	-	-	142	-	237	74	240	240	240	1,173
- salaries and other benefits	2,193	785	-	960	-	-	-	-	-	3,938
- bonus	-	115	-	-	-	-	-	-	-	115
- retirement benefits scheme contributions	13	8	-	18	-	-	-	-	-	39
	<u>2,206</u>	<u>908</u>	<u>142</u>	<u>978</u>	<u>237</u>	<u>74</u>	<u>240</u>	<u>240</u>	<u>240</u>	<u>5,265</u>

For the year ended 31st December, 2016

	Executive Director						Non-Executive Director				Independent Non-Executive Director				Total	
	Mr. Wong Chiu Hong	Mr. Sung Kim Ping	Mr. Tsang Fai	Mr. Lo Ping	Mr. Zheng Jun	Mr. Yeung Choi	Mr. Cheung YeeTat	Mr. Chung Robert	Mr. Chui Chi Yun, Robert	Mr. Wu Kehao	Mr. Zhao Xu	Ms. Huang Yunjie	Mr. Chiu Wai Piu	Dr. Tse Kwok Sang		Mr. Chan Shu Kin
	HK\$'000 (Note ii)	HK\$'000 (Note i)	HK\$'000 (Note v)	HK\$'000 (Note vii)	HK\$'000 (Note vii)	HK\$'000 (Note i)	HK\$'000 (Note iii)	HK\$'000 (Note vii)	HK\$'000 (Note vii)	HK\$'000 (Note i)	HK\$'000 (Note iv)	HK\$'000 (Note i)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Directors																
- fees	-	-	-	-	360	-	-	600	84	46	56	240	240	240	-	1,866
- salaries and other benefits	2,294	1,200	884	1,485	-	312	369	-	-	-	-	-	-	-	-	6,544
- retirement benefits scheme contributions	12	9	18	18	-	8	7	-	-	-	3	-	-	-	-	75
	<u>2,306</u>	<u>1,209</u>	<u>902</u>	<u>1,503</u>	<u>360</u>	<u>320</u>	<u>376</u>	<u>600</u>	<u>84</u>	<u>46</u>	<u>59</u>	<u>240</u>	<u>240</u>	<u>240</u>	<u>240</u>	<u>8,485</u>

The executive directors' emoluments shown above were paid for their services in connection with the management of the affairs of the Company and the Group. The non-executive directors' emoluments shown above were paid for their services as directors of the Company or its subsidiaries. The independent non-executive directors' emoluments shown above were paid for their services as directors of the Company.

The bonus payment for current year was determined regarding to the performance at the discretion of the remuneration committee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS – continued

Notes:

- (i) Mr. Sung Kim Ping, Mr. Yeung Choi Yee, Mr. Wu Kehao and Ms. Huang Yunjie retired as directors of the Company on 7th May, 2016.
- (ii) Mr. Wong Chiu Hong resigned as a director of the Company on 12th October, 2016.
- (iii) Mr. Cheung Tat Chung was appointed as a director and Chief Executive Officer of the Company on 13th August, 2016.
- (iv) Mr. Zhao Xu was appointed as a director of the Company on 13th August, 2016 and retired on 13th August, 2017.
- (v) Mr. Tsang Fai resigned as a director of the Company on 1st June, 2016.
- (vi) Mr. Poon Sum was appointed as a director and the chairman of the board of directors of the Company on 19th April, 2017.
- (vii) Mr. Lo Ping, Mr. Zheng Jun and Mr. Chui Chi Yum, Robert retired as directors of the Company on 23rd May, 2017.

No directors waived nor agreed to waive any emoluments in any of the years.

Save as disclosed in note 38, the Company has not entered into transaction, arrangement or contract in which a director of the Company or a connected entity of a director of the Company has a material interest.

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2016: three) are currently directors of the Company whose emoluments as the capacity of directors of the Company are included in the disclosure in note 14. The emoluments of the remaining three (2016: two) individuals, who are also senior management of the Group, are as follows:

	2017 HK\$'000	2016 HK\$'000
Salaries and other benefits	2,947	2,322
Bonus	272	–
Retirement benefits scheme contributions	54	35
	<u>3,273</u>	<u>2,357</u>

The total emoluments of the three (2016: two) individuals for the entire year were within the following band:

	2017 Number of employee	2016 Number of employee
Below HK\$1,000,000	2	1
HK\$1,000,001 to HK\$1,500,000	1	1

During the years ended 31st December, 2017 and 2016, no emoluments were paid by the Group to the five highest paid individuals or directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

16. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the years ended 31st December, 2016 and 2017, nor has any dividend been proposed since the end of the reporting period.

17. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the loss for the year attributable to the owners of the Company of HK\$101,333,000 (2016: HK\$349,771,000) and on the weighted average number of shares in issue during the year of approximately 4,277,690,000 (2016: 754,791,000).

No diluted loss per share is presented as the Company had no potential ordinary shares outstanding during any time in both years.

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Leasehold improvements HK\$'000	Construction in progress HK\$'000	Total HK\$'000
COST							
At 1st January, 2016	483,159	866,286	29,819	22,439	6,688	39,087	1,447,478
Exchange adjustments	(23,298)	(38,056)	(801)	(1,172)	(890)	(2,480)	(66,697)
Additions	-	302	1,796	862	-	1,571	4,531
Disposal/written off	(38,681)	(136,906)	(2,582)	(9,120)	-	(97)	(187,386)
Reclassified as held for sale (note 33(a))	(96,017)	(122,560)	(5,487)	(688)	-	(914)	(225,666)
At 31st December, 2016	325,163	569,066	22,745	12,321	5,798	37,167	972,260
Exchange adjustments	12,812	15,644	336	525	542	1,068	30,927
Additions	496	2,069	2,855	1,770	447	65	7,702
Transfer in/(out)	106	-	-	-	-	(106)	-
Acquisition of subsidiaries (note 32)	-	-	1,653	-	-	-	1,653
Disposal/written off	-	(42,708)	(12,642)	(1,574)	-	-	(56,924)
Disposal of subsidiaries (note 33(b))	-	-	(2,529)	-	-	-	(2,529)
Reclassified as held for sale (note ii)	-	(104,339)	-	-	-	-	(104,339)
At 31st December, 2017	338,577	439,732	12,418	13,042	6,787	38,194	848,750

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

18. PROPERTY, PLANT AND EQUIPMENT – continued

	Buildings HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Leasehold improvements HK\$'000	Construction in progress HK\$'000	Total HK\$'000
DEPRECIATION AND IMPAIRMENT							
At 1st January, 2016	216,367	579,088	27,859	21,704	6,327	10,397	861,742
Exchange adjustments	(9,393)	(26,716)	(707)	(1,108)	(804)	(21)	(38,749)
Provided for the year	12,378	51,363	226	574	264	–	64,805
Reclassified as held for sale (note 33(a))	(40,342)	(114,410)	(3,536)	(397)	–	–	(158,685)
Eliminated on disposal/written off	(30,851)	(108,437)	(2,580)	(8,766)	–	–	(150,634)
Impairment losses recognised in profit or loss (Note i)	45,934	12,184	381	–	–	611	59,110
At 31st December, 2016	194,093	393,072	21,643	12,007	5,787	10,987	637,589
Exchange adjustments	4,547	13,398	335	493	442	54	19,269
Provided for the year	7,993	33,531	769	711	284	–	43,288
Eliminated on disposal/written off	–	(38,110)	(12,460)	(1,522)	–	–	(52,092)
Eliminated on disposal of subsidiaries (note 33(b))	–	–	(200)	–	–	–	(200)
Impairment losses recognised in profit or loss (Note i)	17,992	14,025	93	–	–	–	32,110
Impairment losses reversed in profit or loss (note i)	–	(10,906)	–	–	–	–	(10,906)
Reclassified as held for sale (Note ii)	–	(96,547)	–	–	–	–	(96,547)
At 31st December, 2017	224,625	308,463	10,180	11,689	6,513	11,041	572,511
CARRYING VALUES							
At 31st December, 2017	113,952	131,269	2,238	1,353	274	27,153	276,239
At 31st December, 2016	131,070	175,994	1,102	314	11	26,180	334,671

The above items of property, plant and equipment (other than construction in progress) are depreciated on a straight-line basis after taking into account their estimated residual values, at the following basis:

Buildings	Over the shorter of the term of the lease or 20 to 25 years
Plant and machinery	10%-20%
Furniture and fixtures	4%-30%
Motor vehicles	30%
Leasehold improvements	12%

As at 31st December, 2017 and 2016, buildings of the Group are located outside of Hong Kong with medium lease terms.

At 31st December, 2017, the carrying value of motor vehicles includes an amount of HK\$620,000 (2016: nil) in respect of assets held under finance leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

18. PROPERTY, PLANT AND EQUIPMENT – continued

Notes:

- (i) At 31st December, 2017 and 2016, the directors of the Company conducted reviews of the recoverable amounts of the Group's property, plant and equipment and prepaid lease payments (as set out in note 19) under the segment of production, sale and trading of textile products due to the recurring operating loss from the Group's textile business and other considerations as set out in note 4 with reference to the valuation reports issued by an independent external valuer, Vigers Appraisal & Consulting Limited. The recoverable amounts of these assets are determined at the higher of value in use and fair value less costs of disposal.

As a result, the directors of the Company have determined to recognise impairment losses of approximately HK\$32,110,000 (2016: HK\$59,110,000) and HK\$424,000 (2016: nil) in respect of the property, plant and equipment and prepaid lease payments, respectively and reversed impairment loss recognised in previous years of HK\$10,906,000 (2016: nil) in respect of property, plant and equipment.

Property, plant and equipment whose recoverable amounts are determined based on value in use

The directors of the Company have assessed the recoverable amounts of buildings in Cambodia based on their value in use at the end of the reporting period which used cash flow projection derived from the most recent financial budget approved by the management based on its best estimates covering 5 years. The growth rate used in the forecast was zero (2016: zero). The cash flow forecast applied a discount rate of 12.5% (2016: 10.2%) which reflected the return on assets and the risks specific to the textile business. As a result, an impairment losses of approximately HK\$16,858,000 (2016: HK\$17,072,000) was charged to profit or loss.

Property, plant and equipment and prepaid lease payments whose recoverable amounts are determined based on fair value less costs of disposal

The directors of the Company have assessed the recoverable amounts of property, plant and equipment and prepaid lease payments in PRC based on their fair values less costs of disposal at the end of the reporting period. The fair values less costs of disposal of the respective property, plant and equipment have been based on a valuation carried out by Vigers Appraisal & Consulting Limited. In estimating the fair value of the property, plant and equipment and prepaid lease payments, the highest and best use is their current use. The fair values of the leasehold lands and buildings were determined using the direct comparison method, which made reference to the recent transactions for similar properties in the proximity and adjusted for a number of unobservable inputs between the comparable properties and the subject matters. For plant and machinery and furniture and fixtures, their fair values were determined using the replacement cost method, with adjustments to reflect comparable utility and age, etc. The fair value measurements for the Group's property, plant and equipment and prepaid lease payments are categorised as Level 3 (see note 3). There are no transfers into or out of Level 3 during the year.

The directors of the Company have determined to recognise impairment losses of approximately HK\$1,134,000 (2016: HK\$28,861,000) in respect of buildings in the PRC, HK\$14,025,000 (2016: HK\$12,184,000) in respect of plant and machinery, HK\$93,000 (2016: HK\$381,000) in respect of furniture and fixtures and HK\$424,000 (2016: nil) in respect of prepaid lease payments.

During the year ended 31st December, 2016, the directors of the Company recognised impairment losses of HK\$611,000 (2017: nil) in respect of construction in progress based on fair value less costs of disposal. In addition, during the year ended 31st December, 2017, the directors of the Company reversed impairment loss recognised in previous years of HK\$10,906,000 (2016: nil) in respect of certain property, plant and equipment as the recoverable amounts based on fair value less costs of disposal are higher than the carrying amounts.

- (ii) On 26th October, 2017 and 13th December, 2017, the Group entered into sale and purchase agreements with independent third parties to dispose of property, plant and equipment held by certain subsidiaries in the PRC and Cambodia with an aggregate carrying amount of HK\$7,792,000 for a total consideration of HK\$12,385,000. Deposits of HK\$6,301,000 has been received by the Group before the end of the reporting period and included in trade and other payables as at 31st December, 2017. The assets, which are expected to be sold within twelve months, have been classified as assets held for sale as at 31st December, 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

19. PREPAID LEASE PAYMENTS

	2017 HK\$'000	2016 HK\$'000
Analysed for reporting purpose as:		
Non-current asset	44,479	43,500
Current asset	1,121	1,049
	<u>45,600</u>	<u>44,549</u>

20. GOODWILL

	HK\$'000
COST AND CARRYING VALUE	
At 1st January, 2016 and 31st December, 2016	–
Arising on acquisition of subsidiaries (note 32)	23,452
Disposal of subsidiaries (note 33(b))	<u>(8,899)</u>
At 31st December, 2017	<u>14,553</u>

Particulars regarding impairment testing on goodwill are disclosed in note 21.

21. IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment assessment, goodwill of the Group of HK\$14,553,000 as set out in note 20 is allocated to provision of financial services segment as an individual CGU.

The basis of recoverable amounts of the CGU of the provision of financial services segment has been determined based on the fair value less costs of disposal which was assessed by the management with reference to a business value performed by an independent valuer, DTZ Cushman & Wakefield Limited as at 31st December, 2017 using income approach. The valuation used pre-tax cash flow projections based on financial budgets approved by management covering a five-year period and discounted by the rate specific to the relevant CGU which is within level 3 fair value hierarchy. The management determines the financial budgets based on past performance and its expectations for market developments. Cash flows beyond the five-year period are extrapolated using the estimated growth rate. As at 31st December, 2017, no impairment of the CGU has been identified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

22. AVAILABLE-FOR-SALE INVESTMENTS

	2017 HK\$'000	2016 HK\$'000
Available-for-sale investments-unlisted securities		
– Coulman International, at fair value (Note i)	<u>81,484</u>	<u>94,545</u>
– National Asia, at cost (Note ii)	9,500	9,500
Less: impairment loss recognised	<u>(6,669)</u>	<u>(6,669)</u>
	<u>2,831</u>	<u>2,831</u>
	<u>84,315</u>	<u>97,376</u>

Notes:

- (i) This represents 13% of the equity interest in Coulman International. Coulman International is an investment holding company incorporated in the British Virgin Islands and its non wholly-owned subsidiaries operate in natural gas business, including construction of pipelines, selling and distribution of natural gas, operation of fueling stations as well as installation of natural gas equipment in the PRC. It is measured at fair value at the end of the reporting period.

The actual performance of Coulman International was less favourable than the estimate of its management by an impairment loss of HK\$15,420,000 (2016: HK\$35,455,000) has been made for the year ended 31st December, 2017 and included in profit or loss in other gain and losses.

- (ii) On 12th August, 2016, an indirect wholly-owned subsidiary of the Company, Endless Synergy Limited (“Endless Synergy”), entered into an agreement, pursuant to which Endless Synergy has agreed to acquire 2,700,000 shares in the share capital of National Asia, representing 27% of the equity interest in National Asia. National Asia is a company incorporated in Hong Kong and is engaged in trading of fuel oil for vessels. The acquisition was completed on 29th September, 2016 and the consideration for the acquisition is HK\$9,500,000, which had been fully settled by cash. In the opinion of directors of the Company, the Group does not exercise significant influence in National Asia and this investment is accounted for as an available-for-sale investment. It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the company is of the opinion that their fair values cannot be measured reliably. As at 31st December, 2016, the directors of the company conducted an impairment assessment of the recoverable amount of National Asia based on the then latest financial information of National Asia and considered that an impairment loss of HK\$6,669,000 has to be recognised for the year ended 31st December, 2016 and has been included in other gains and losses. The directors of the Company considers that no impairment loss has to be recognised for the year ended 31st December, 2017 based on the latest financial performance of National Asia.

23. HELD-FOR-TRADING INVESTMENTS

	2017 HK\$'000	2016 HK\$'000
Equity securities listed in Australia	<u>2,565</u>	<u>–</u>

As at 31st December, 2017, held-for-trading investments represent an investment in equity securities listed on the Australian Securities Exchange. The fair value of the held-for-trading investments has been determined by reference to the quoted market bid prices available on the Australian Securities Exchange.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

24. INVENTORIES

	2017 HK\$'000	2016 HK\$'000
Raw materials	5,801	20,194
Work in progress	13,224	10,513
Finished goods	9,610	15,888
	<u>28,635</u>	<u>46,595</u>

25. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2017 HK\$'000	2016 HK\$'000
Trade receivables, net (Note i)	31,477	51,131
Refundable deposit paid for acquisition of an investment (Note ii)	22,000	40,000
Amounts due from former related parties (Note iii)	–	1,190
Amount due from National Asia (Note iv)	4,632	2,334
Refundable deposits paid for potential investments (Note v)	36,000	–
Prepayments to suppliers of petroleum trading business	61,075	–
Prepaid expenses	2,480	1,534
VAT receivables	3,120	3,740
Deposits	5,248	1,300
Interest receivables	2,820	–
Others (Note vi)	3,234	4,045
	<u>172,086</u>	<u>105,274</u>

Notes:

- (i) The Group generally allows credit period ranged from 30 days to 120 days to its trade customers.

Aged analysis of trade receivables is presented based on the invoice dates at the end of the reporting period, which approximate the respective revenue recognition dates, are as follows:

	2017 HK\$'000	2016 HK\$'000
Trade receivables (net), aged:		
0-30 days	11,008	17,879
31-60 days	7,138	13,943
61-90 days	6,924	9,240
91-120 days	1,685	7,481
Over 120 days	4,722	2,588
	<u>31,477</u>	<u>51,131</u>

Before accepting any new customer, the Group will assess and understand the potential customer's credit quality and define its credit limits. Credit limits attributed to each customer are reviewed regularly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

25. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – continued

Notes: – continued

(i) – continued

Ageing of trade receivables which are past due but not impaired

	2017 HK\$'000	2016 HK\$'000
Overdue by:		
31-60 days	10,408	7,476
61-90 days	645	1,869
91-120 days	748	3,965
Over 120 days	2	1,536
	<u>11,803</u>	<u>14,846</u>

The Group has not provided for impairment loss on trade receivables of HK\$11,803,000 (2016: HK\$14,846,000) which are past due but not impaired as these receivables relate to debtors who have made regular repayments historically. The Group does not hold collateral over these trade receivables.

Movement in the allowance for doubtful debts

	2017 HK\$'000	2016 HK\$'000
At 1st January	–	–
Allowance recognised on trade receivables	134	10,416
Exchange realignment	–	(585)
Amounts written off during the year as uncollectible	(134)	–
Reclassified to assets held for sale	–	(9,831)
	<u>–</u>	<u>–</u>
At 31st December	–	–

During the year ended 31st December, 2016, the Group has recognised a bad debt recovered of HK\$2,001,000. No bad debt has been recovered during the year ended 31st December, 2017.

(ii) On 30th June, 2016, the Group has entered into a formal sale and purchase agreement with Kai Lian Group Limited (“Kai Lian”) to acquire 22% equity interest in Coulman International at a consideration of HK\$160,000,000, which is to be partially settled by the refundable deposit of HK\$40,000,000 paid in 2015 and the remaining balance of HK\$120,000,000 in cash and/or issue of the promissory notes by the Company to Kai Lian.

On 31st December, 2016, the Company has announced that the said formal sale and purchase agreement has lapsed due to certain conditions precedent not yet been fulfilled or waived by the Group on or before 31st December, 2016. Pursuant to a settlement agreement entered into by the Group with Kai Lian on 21st March, 2017, the said deposit is secured by the 38% of the issued share capital of Coulman International owned by Kai Lian and held under custody for the benefits of the Group before the full amount has been settled by Kai Lian. As agreed by the Group and Kai Lian, the above refundable deposit of HK\$40,000,000 would be refunded to the Group by installments in 2017.

During the year ended 31st December, 2017, HK\$18,000,000 has been refunded by Kai Lian. Pursuant to a supplementary settlement agreement that the Group and Kai Lian further entered into on 30th December, 2017, the outstanding refundable deposits of HK\$22,000,000 will be refunded to the Group in 2018. The 38% of the issued share capital of Coulman International owned by Kai Lian is continued to be held under custody for the benefits of the Group before the full settlements of these amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

25. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – continued

Notes: – continued

- (iii) The balance represents amounts due from certain entities, including Addchance Dyeing Factory Limited (“Addchance Dyeing”, see note 38 for details). All of the relevant amounts are unsecured, interest-free and repayable on demand.
- (iv) The amount is unsecured, interest-free and repayable on demand. The directors of the Company expected that the amount will be recovered within twelve months from the end of the reporting period.
- (v) The balance as at 31st December, 2017 represents amounts placed with two consultancy firms, both of which are independent third parties, for the purpose of seeking potential investment opportunities for the Group. Pursuant to the relevant service agreements, these deposits will be applied as the considerations to be paid by the Group for any confirmed investments. Any unutilised balance upon the expiry of the terms of services of these consultants will be refunded in full to the Group. As at 31st December, 2017, no investment opportunities has been affirmed.
- (vi) The Group has recognised impairment losses in respect of other receivables due from several independent third parties of HK\$4,563,000 (2016: HK\$2,449,000) during the year ended 31st December, 2017 in view of the difficulties encountered on collection of the amounts. The Group has also recognised a bad debt recovered of HK\$1,483,000 during the year ended 31st December, 2016. No bad debt has been recovered during the year ended 31st December, 2017.

Movement in the allowance for doubtful debts

	2017 HK\$'000	2016 HK\$'000
At 1st January	–	–
Allowance recognised on other receivables	4,563	2,449
Amounts written off during the year as uncollectible	(4,570)	(2,449)
Exchange adjustments	7	–
	<hr/>	<hr/>
At 31st December	–	–

The amount of the Group's trade and other receivables denominated in currency other than the functional currency of the relevant group entities are set out below:

	2017 HK\$'000	2016 HK\$'000
USD	28,876	49,344
RMB	130	–
EUR	1,084	–
	<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

26. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and short-term bank deposits with an original maturity of three months or less. The amount carries interest at variable interest rates ranged from 0.001% to 0.35% per annum (2016: 0.001% to 0.1% per annum).

The amount of the Group's bank balances and cash denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2017 HK\$'000	2016 HK\$'000
USD	20,535	41,903
RMB	1,472	522
EUR	<u>8</u>	<u>4</u>

27. TRADE AND OTHER PAYABLES

	2017 HK\$'000	2016 HK\$'000
Trade payables (Note i)	24,762	19,576
Receipt in advance from customers	16,159	30
Accrued salary	31,333	26,304
VAT tax payables	719	1,175
Interest payables	–	14,169
Amounts due to former related parties (Note ii)	20,950	50,198
Amount due to a former subsidiary (Note iii)	15,285	–
Deposits received for disposals of property, plant and machinery (note 18)	6,301	–
Accrued expenses	27,934	23,927
Others	<u>18,684</u>	<u>18,314</u>
	<u>162,127</u>	<u>153,693</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

27. TRADE AND OTHER PAYABLES – continued

Notes:

- (i) The following is an aged analysis of trade payables presented based on the invoice dates at the end of reporting period:

	2017 HK\$'000	2016 HK\$'000
Aged:		
0-60 days	9,122	6,220
61-90 days	10,795	722
Over 90 days	4,845	12,634
	<u>24,762</u>	<u>19,576</u>

The average credit period on purchases of goods is 60 days to 90 days.

- (ii) As at 31st December, 2016, the balance represents an amount due to a former substantial shareholder and former director of the Company of HK\$29,248,000 and an amount due to an entity, to the best knowledge of the directors of the Company, beneficially owned by a former director of the Company of HK\$20,950,000 with details set out in note 1. During the year ended 31st December, 2017, the amount due to a former substantial holder and former director of the Company has been fully repaid.
- (iii) The balance represents amount due to a former subsidiary, Addchance International Limited, which has been disposed of during the year ended 31st December, 2017 (see note 33). The amount is unsecured, interest-free and repayable on demand. Subsequent to the end of the reporting period, the amount due to Addchance International Limited of approximately HK\$14,820,000 has been fully repaid.

The Group's trade and other payables that are denominated in currency other than the functional currencies of the relevant group entities are set out below:

	2017 HK\$'000	2016 HK\$'000
USD	<u>11,002</u>	<u>10,953</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

28. BANK AND OTHER BORROWINGS/BANK OVERDRAFTS

	2017 HK\$'000	2016 HK\$'000
Bank borrowings (Notes i and ii)		
– Bank loans	106,842	167,843
– Trust receipt loans	–	388,604
	<u>106,842</u>	<u>556,447</u>
Unlisted and unguaranteed corporate bonds issued by the Company (Note iii)		
– Bonds issued in 2015	12,423	11,236
– Bonds issued in 2016	11,216	10,573
– Bonds issued in 2017	55,205	–
	<u>78,844</u>	<u>21,809</u>
Other borrowings (Note iv)	192,885	33,000
Bank overdrafts (Note v)	149	68,128
	<u>378,720</u>	<u>679,384</u>
Carrying amount are repayable, based on scheduled repayment dates set out in the loan agreements, as follows:		
On demand within one year	302,599	153,851
Repayable within one year and being demanded by the Banks (as defined in Note i below) for immediate repayment	–	504,673
Repayable more than one year but not more than two years	47,483	–
Repayable more than two years but not more than five years	19,499	9,624
Repayable more than five years	9,139	11,236
	<u>378,720</u>	<u>679,384</u>
Less: Amount due and repayable within one year shown under current liabilities		
– Bank and other borrowings	(302,449)	(590,396)
– Bank overdrafts	(149)	(68,128)
	<u>76,122</u>	<u>20,860</u>
Amount shown under non-current liabilities		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

28. BANK AND OTHER BORROWINGS/BANK OVERDRAFTS – continued

	2017 HK\$'000	2016 HK\$'000
Analysed as:		
Secured (Note vi)	292,523	282,340
Unsecured	86,197	397,044
	<u>378,720</u>	<u>679,384</u>
Analysed as:		
Fixed-rate (Note vii)	288,686	174,711
Variable-rate (Note vii)	90,034	504,673
	<u>378,720</u>	<u>679,384</u>

Notes:

- (i) Since the year ended 31st December, 2015, the Group has breached certain loan covenants and defaulted on repayment of certain bank borrowings ("Defaulted Bank Borrowings"). Certain bankers of the Company (the "Banks") have therefore demanded immediate repayment of defaulted bank loans of HK\$504,673,000 as at 31st December, 2016 by the Group or they may consider commencing legal proceedings against the Group. The Group has been actively negotiating with the Banks for restructuring the relevant borrowings, including rescheduling the terms of repayment and/or the extension or revision of the relevant banking facilities. As part of the negotiations, Addchance Dyeing, a company owned as to 60% by Dr. Sung Chung Kwun, the former chairman and the former shareholder of the Company, who retired on 31st May, 2013, as to 20% by Mr. Sung Kim Ping, a former executive director of the Company, who retired on 7th May, 2016, and as to 20% by an independent third party to the best knowledge of the directors, has arranged the execution of second mortgage on its own property in respect of the Sung's Tower, Nos. 15-19 Lam Tin Street, Kwai Chung, New Territories, Hong Kong (the "Addchance Dyeing Property"), in favour of the Banks to secure all the present and future debts owed by the Group to the Banks.

On 9th March, 2017, the Group and each of the Banks entered into a debt restructuring deed (the "Debt Restructuring Deed"), pursuant to which the Banks agree to assign and transfer to the Group all of its rights, title, benefits and interests in the Defaulted Bank Borrowings, including the charge over Addchance Dyeing Property, for a consideration of approximately HK\$527 million which is equal to the outstanding balance of the Defaulted Bank Borrowings as at the date of the Debt Restructuring Deed, upon fulfilment of certain conditions.

Pursuant to the Debt Restructuring Deed the Group has to pay (i) HK\$50 million upon the execution of the Debt Restructuring Deed; (ii) HK\$40 million by 30 days from date of entering into the Debt Restructuring Deed; (iii) HK\$140 million by 180 days from date of entering into the Debt Restructuring Deed; and (iv) the remaining balance of the outstanding defaulted of the outstanding Defaulted Bank Borrowings at the date of the Debt Restructuring Deed, which would be reduced to HK\$150 million should such amount be paid within one year from the date of entering into the Debt Restructuring Deed. If an aggregate amount of HK\$380 million is paid by the Group at any time before the first anniversary of the date of the Debt Restructuring Deed, the consideration of approximately HK\$527 million under the Debt Restructuring Deed will be reduced to HK\$380 million.

During the year ended 31st December, 2017, the Group has repaid HK\$380 million to the Banks and the Defaulted Bank Borrowings has been fully settled. The remaining balance of the outstanding Defaulted Bank Borrowings of HK\$166,396,000 has been derecognised and the Group recognised as a gain on the debt restructuring in profit or loss. As at 31st December, 2017, the Group is not in breach of any loan covenants of any bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

28. BANK AND OTHER BORROWINGS/BANK OVERDRAFTS – continued

Notes: – continued

- (ii) The ranges of effective interest rates (which are also equal to contracted interest rates) per annum on the Group's bank borrowings are as follows:

	2017	2016
Fixed-rate borrowings	8.57%	4.6% to 8.26%
Variable-rate borrowings	<u>5.44% to 6.09%</u>	<u>1.80% to 6.75%</u>

- (iii) Bonds are issued by the Company and are fixed-rate borrowings.

Bonds issued in 2015 with a principal amount of HK\$19,900,000 are unsecured and carry coupon interest rates of 6% per annum. The effective interest rates ranging from 10.47% to 10.63% per annum and the bonds are due in 2022.

Bonds issued in 2016 with a principal amount of HK\$16,000,000 are unsecured and carry coupon interest rates ranging from 6% to 10% per annum. The effective interest rate of the bonds ranging from 15.92% to 25.36% per annum and are payable upon maturity in 2018 to 2019.

In addition, the Group issued bonds in 2017 with a principal amount of HK\$74,735,000 which are unsecured and carry coupon interest rates ranging from 0.4% to 8.75% per annum. The effective interest rates range from 8.68% to 35.84% per annum and the bonds are payable upon maturity in 2018 to 2025.

- (iv) In 2016, the Group raised fund from independent third parties with a principal amount of HK\$33,000,000 bearing a fixed interest rates ranging from 24% to 33% per annum and are repayable within one year. The fund raised in 2016 were fully repaid during the year.

In 2017, the Group raised funds from two independent third parties of principal amounts of HK\$200,000,000 and RMB6,000,000, respectively, bearing fixed interest rates ranging from 12% to 20% per annum and are repayable within one year and two years, respectively.

- (v) Bank overdrafts are repayable on demand.

- (vi) The secured bank borrowings are secured by the Group's certain prepaid lease payments and property, plant and equipment. Details are set out in note 35.

The other borrowing with principal amount of HK\$200,000,000 as at 31st December, 2017 advanced by an independent third party is secured by the second mortgage charge over Addchance Dyeing Property under the Debt Restructuring Deed assigned to the Group by the Banks upon settlements of the Defaulted Bank Borrowings during the year and entire issued ordinary shares of Champion Forever Group Limited, a direct wholly-owned subsidiary of the Company, being the assignee of the above charge. The other borrowing is also guaranteed by Mr. Poon Sum.

- (vii) The exposure of the Group's fixed-rate borrowings and the contractual maturity dates are as follows:

	2017 HK\$'000	2016 HK\$'000
On demand or within one year	212,564	153,851
More than one year but not more than five years	66,983	–
More than five years	<u>9,139</u>	<u>20,860</u>
	<u>288,686</u>	<u>174,711</u>

The Group's variable-rate borrowings are on demand or due within one year and carry interests at rates based on HIBOR, LIBOR or People's Bank of China's basic borrowing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

28. BANK AND OTHER BORROWINGS/BANK OVERDRAFTS – continued

Notes: – continued

(viii) The Group's bank and other bank borrowings and bank overdrafts that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2017 HK\$'000	2016 HK\$'000
USD – bank borrowing:		
– Trust receipt loans	–	372,191

29. OBLIGATIONS UNDER FINANCE LEASES

The Group leases a motor vehicle under finance leases during the year ended 31st December, 2017. The lease term is 5 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates at 2.5% per annum.

	Minimum lease payments		Present value of minimum lease payments	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Obligations under finance leases payable:				
Within one year	160	–	132	–
Within a period of more than one year but not more than two years	160	–	139	–
Within a period of more than two years but not more than five years	401	–	378	–
	721	–	649	–
Less: future finance charges	(72)	–	N/A	N/A
Present value of lease obligations	649	–	649	–
Less: Amount due for settlement with 12 months (shown under current liabilities)			(132)	–
Amount due to settlement after 12 months			517	–

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For the year ended 31st December, 2017

30. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised share capital:		
At 1st January, 2016, 31st December, 2016 and 31st December, 2017	10,000,000,000	100,000
Issued and fully paid:		
At 1st January, 2016	705,730,909	7,057
Issue of new shares (Note i)	141,000,000	1,410
At 31st December, 2016	846,730,909	8,467
Issue of new shares (Note ii)	4,550,000,000	45,500
At 31st December, 2017	5,396,730,909	53,967

Notes:

- (i) On 4th August, 2016, the Company entered into a placing agreement with Yuanta Securities (Hong Kong) Company Limited (the "2016 Placing Agent"), pursuant to which the 2016 Placing Agent agrees, as agent of the Company, to procure on a best effort basis not fewer than six investors, who will be independent third parties, to subscribe for up to 141,000,000 Placing Shares at the Placing Price of HK\$0.305 per Placing Share. On 26th August, 2016, the placing was completed and 141,000,000 shares, represented approximately 16.65% of the then issued share capital of the Company as enlarged by the issue of the 141,000,000 placing shares, have been placed to not less than six places at the placing price of HK\$0.315 per placing share. The gross and net proceeds from the placing amounted to approximately HK\$44.4 million and approximately HK\$42.2 million, respectively.
- (ii) On 6th January, 2017, the Group entered into subscription agreements with four subscribers, Gold Train Investments Limited (the "First Subscriber"), Mr. Yuan Dongjie (the "Second Subscriber"), Mr. Chen Chiquan (the "Third Subscriber") and Ms. Li Shuanghui (the "Forth Subscriber"), pursuant to which the First Subscriber has agreed to subscribe no less than 2,500,000,000 new shares and no more than 3,800,000,000 new share and each of the remaining subscribers have agreed to subscribe 250,000,000 new shares. Mr. Poon Sum is the sole director and shareholder of the First subscriber (who has been appointed as an executive director and chairman of the board of directors of the Company on 19th April, 2017) and the remaining subscribers are independent third parties. All new shares issued under subscription agreements is HK\$0.08 each. All of these subscriptions have been completed and an aggregate 4,550,000,000 shares have been issued by the Company. The gross and net proceeds from these subscriptions are approximately HK\$364 million and HK\$359 million, respectively. The net proceeds from the subscriptions were arrived after deduction of commission and other related expenses.
- (iii) The Company has adopted a share option scheme on 23rd May, 2017 (the "Scheme") which enables the Company to grant options to eligible persons as incentive or rewards for their contributions to the Group. Pursuant to the Scheme, the Company may grant options to (a) any full time employee or director of any member of the Group; (b) any part time employee of any member of the Group who has spent not less than 10 hours per week in providing services to such member of the Group, determined by averaging out the total number of hours so spent in a period of four weeks immediately preceding the week in which a grant of the option is offered to such part time employee; or (c) any consultant or adviser or to any member of the Group who has provided technical know-how and consultancy services to such member of the Group in accordance with the terms of a contractual relationship entered into between the consultant or adviser with such member of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

30. SHARE CAPITAL – continued

Notes: – continued

(iii) – continued

The total number of the shares which may be issued upon exercise of all options to be granted under the Scheme must not exceed 539,673,090 shares, representing 10 per cent of the shares in issue as at the date of passing the resolutions approving the Scheme. The total number of the shares issued and to be issued upon exercise of the options granted to a participant under the Scheme (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent of the shares in issue from time to time unless approval from the shareholders of the Company in general meeting is obtained with such participant and his/her associates abstaining from voting.

The exercisable period of an option under the Scheme will be notified by the board of directors to each participant which shall not exceed 10 years from the date upon which the option is deemed to be granted and accepted. The Scheme does not require a minimum period for which an option must be held before an option can be exercised. Upon acceptance of the option, the eligible person shall pay HK\$1.00 to the Company by way of consideration for the grant.

The subscription price for the shares subject to options will be a price determined by the board of directors and will be at least the highest of (i) the average closing price of the shares on the Main Board as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; (ii) the closing price of the shares on the Main Board as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; and (iii) the nominal value of the share. Subject to the termination provisions, the Scheme will remain valid for a period of 10 years commencing on 23rd May, 2017. The Scheme will expire on 22nd May, 2027.

No options were granted, exercised, cancelled or lapsed during the year ended 31st December, 2017 nor outstanding as at 31st December, 2017.

31. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation HK\$'000	Unrealised profit on inventories HK\$'000	Withholding tax on undistributed profits of subsidiaries HK\$'000	Total HK\$'000
At 1st January, 2016	81	362	3,717	4,160
Credit to profit or loss	(36)	(362)	(18)	(416)
At 31st December, 2016	45	–	3,699	3,744
Arising from acquisition of subsidiaries (note 32)	7	–	–	7
Credit to profit or loss	(45)	–	(62)	(107)
At 31st December, 2017	7	–	3,637	3,644

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1st January, 2008 onwards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

31. DEFERRED TAX LIABILITIES – continued

Under the Law on Taxation of Cambodia, withholding tax is imposed on dividends declared in respect of profits earned by Cambodian subsidiaries from 1st June, 1998 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the Cambodian subsidiaries amounting to HK\$48,918,000 as at 31st December, 2017 (2016: HK\$71,065,000) 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 reverse in the foreseeable future.

As at 31st December, 2017, the Group has unused tax losses of HK\$443,170,000 (2016: HK\$545,491,000). No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$267,744,000 (2016: HK\$245,369,000) that will expire between 2018 to 2022 (2016: 2017 to 2021). Other losses may be carried forward indefinitely. The unrecognised tax losses will expire as follows:

	2017 HK\$'000	2016 HK\$'000
In 2017	–	32,295
In 2018	43,269	43,911
In 2019	46,146	47,077
In 2020	45,018	47,652
In 2021	74,434	74,434
In 2022	58,877	–
	<u>267,744</u>	<u>245,369</u>

32. ACQUISITION OF SUBSIDIARIES

During the year ended 31st December, 2017, the Group completed the acquisitions of 51% equity interest in Shenzhen Eastone and 70.83% equity interest in LW Asset Management Advisors Limited (“LW Asset”) and its subsidiary (collectively referred to “LW Asset Group”) (collectively the “Acquisitions”).

(i) Shenzhen Eastone

On 15th May, 2017, an indirect wholly-owned subsidiary of the Company, Addchance International Limited acquired 51% equity interest in Shenzhen Eastone at a consideration of HK\$9,530,000. Shenzhen Eastone is principally engaged in provision of big data services. The acquisition has been accounted for using the acquisition method.

Pursuant to the sale and purchase agreement, Addchance International Limited is required to pay to the seller an extra amount of no more than HK\$10,400,000 calculated with reference to the audited net profit of Shenzhen Eastone for the year ended 31st December, 2017. Based on the best estimate of the directors of the Company, the profit target of Shenzhen Eastone as specified in the sale and purchase agreement will not be met and the fair value of contingent consideration is nil.

On 27th December, 2017, the Group disposed of Addchance International Limited, the immediate holding company of Shenzhen Eastone. Further details are set out in note 33.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

32. ACQUISITION OF SUBSIDIARIES – continued

(ii) LW Asset Group

On 7th March, 2017, an indirect wholly-owned subsidiary of the Company, Diamond Forest International Limited (“Diamond Forest”) acquired 70.83% equity interest in LW Asset at a consideration of HK\$17,000,000. LW Assets Group is principally engaged in provision of asset management service. The acquisition has been accounted for using the acquisition method.

Further details of the Acquisitions are as follows:

	Shenzhen Eastone HK\$'000	LW Asset Group HK\$'000	Total HK\$'000
Consideration transferred:			
Promissory note (Note i)	9,530	–	9,530
Cash paid during the year	–	1,000	1,000
Deposit paid during the year ended 31st December, 2016	–	16,000	16,000
	<u>9,530</u>	<u>17,000</u>	<u>26,530</u>
Fair value of assets acquired and liabilities recognised at the date of acquisitions:			
Property, plant and equipment	1,557	96	1,653
Trade and other receivables, deposits and prepayments	12,411	617	13,028
Bank balances and cash	22	2,810	2,832
Trade and other payables	(12,753)	(61)	(12,814)
Deferred tax liabilities	–	(7)	(7)
	<u>1,237</u>	<u>3,455</u>	<u>4,692</u>
Goodwill arising on acquisitions:			
Consideration transferred	9,530	17,000	26,530
Add: non-controlling interests	606	1,008	1,614
Less: net assets acquired	(1,237)	(3,455)	(4,692)
	<u>8,899</u>	<u>14,553</u>	<u>23,452</u>
Cash inflow arising on acquisition for the current period:			
Bank balances and cash acquired	22	2,810	2,832
Less: cash consideration paid during the current year	–	(1,000)	(1,000)
	<u>22</u>	<u>1,810</u>	<u>1,832</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

32. ACQUISITION OF SUBSIDIARIES – continued

Notes:

- (i) The promissory note is unsecured, interest-bearing at 2% per annum and payable within 1 year. It is issued by Addchance International Limited with a principal amount of HK\$10 million and effective interest rate of 12.29% per annum.
- (ii) Acquisition-related costs amounting to HK\$1,156,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses in profit or loss.

Fair values of identifiable assets acquired and liabilities assumed are determined by reference to purchase price allocation exercises performed by independent and professional qualified valuers, DTZ Cushman & Wakefield Limited using the income approach. Significant assumptions of the valuations include the growth rates, discount rates and expected future cash inflow/outflows of Shenzhen Eastone and LW Asset Group.

Included in the loss for the year are HK\$2,029,000 and HK\$4,825,000 attributable to the loss incurred by Shenzhen Eastone and LW Asset Group respectively. Revenue for the year includes HK\$744,000 generated from LW Asset Group. No revenue has been generated by Shenzhen Eastone during the year.

Had the Acquisitions been completed on 1st January, 2017, total group revenue for the year would have been HK\$413,920,000, and loss for the year would have been HK\$103,823,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the Acquisitions been completed on 1st January, 2017, nor is it intended to be a projection of future results.

33. DISPOSAL OF SUBSIDIARIES

During the year ended 31st December, 2017, the Group completed the following disposals:

- (a) **Zhangjiagang Addchance Dyeing & Finishing Co., Ltd. (“ZJG Addchance Dyeing”) and Zhangjiagang Addchance Spinnery Co., Ltd. (“ZJG Addchance Spinnery”)**

On 6th January, 2017, Addchance Limited, entered into a sale and purchase agreement with an independent third party (the “Buyer”), pursuant to which, Addchance Limited disposed of all of its equity interests in ZJG Addchance Dyeing and ZJG Addchance Spinnery (the “Disposal Group”), which are wholly-owned subsidiaries of the Company, at an aggregate cash consideration of HK\$1,000,000.

The disposal of the Disposal Group was completed on 22nd February, 2017.

	HK\$'000
Analysis of assets and liabilities over which control was lost (included as assets and liabilities classified as held for sale as at 31st December, 2016):	
Property, plant and equipment	67,675
Prepaid lease payments	12,344
Inventories	17,346
Trade receivables, other receivables, deposits and prepayments	10,910
Bank balances and cash	7,704
Trade and other payables	(44,716)
Tax liabilities	(5,368)
Bank borrowings	(88,427)
Net liabilities disposed of	(22,532)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

33. DISPOSAL OF SUBSIDIARIES – continued

- (a) Zhangjiagang Addchance Dyeing & Finishing Co., Ltd. (“ZJG Addchance Dyeing”) and Zhangjiagang Addchance Spinnery Co., Ltd. (“ZJG Addchance Spinnery”) – continued

	HK\$'000
Gain on disposal of the Disposal Group:	
Consideration received	1,000
Reclassification of translation reserve upon disposal of foreign operations	43,712
Net liabilities disposed of	<u>22,532</u>
Gain on disposal	<u>67,244</u>
Net cash outflow arising on the disposal:	
Cash consideration	1,000
Less: bank balances and cash disposed of	<u>(7,704)</u>
	<u>(6,704)</u>

The Disposal Group did not have significant contributions to the results or cash flows of the Group during the year.

As at 31st December, 2016, the Group provided corporate guarantees to a bank in respect of short term bank borrowings granted to the Disposal Group amounted to RMB61,200,000 in aggregate (equivalent to approximately HK\$68,764,000). Pursuant to the corporate guarantee agreement entered into with the Buyer dated 14th February, 2017, the Group will continue to provide the guarantee for a period up to 14th June, 2018 while a counter-indemnity in favour of the Group will be executed by the Buyer pursuant to which the Buyer undertakes to indemnify the Group the liabilities arising from the above loan facilities, if any. The relevant bank borrowings have been repaid during the year ended 31st December 2017 and the guarantee by the Group was released upon full repayment of the bank borrowing.

The Group had committed to a plan to sell the Disposal Group and been actively locating a buyer to complete the plan during the year ended 31st December, 2016. In the opinion of the directors of the Company, the disposal will be taken place within twelve months from 31st December, 2016. Accordingly, the assets and liabilities of the Disposal Group have been classified as assets and liabilities held for sales, respectively, as at 31st December, 2016 and had been separately presented in the consolidated statement of financial position. The assets and liabilities of the Disposal Group as at 31st December, 2016 were as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

33. DISPOSAL OF SUBSIDIARIES – continued

(a) Zhangjiagang Addchance Dyeing & Finishing Co., Ltd. (“ZJG Addchance Dyeing”) and Zhangjiagang Addchance Spinnery Co., Ltd. (“ZJG Addchance Spinnery”) – continued

	HK\$'000
Property, plant and equipment	66,981
Prepaid lease payments	12,399
Inventories	15,923
Trade receivable, other receivables, deposits and prepayments	14,310
Bank balances and cash	4,700
	<hr/>
Total assets classified as held for sale	114,313
	<hr/>
Trade and other payables	(39,908)
Tax liabilities	(5,368)
Bank borrowings	(88,427)
	<hr/>
Total liabilities associated with assets classified as held for sale	(133,703)
	<hr/>

(b) Addchance International Limited and Shenzhen Eastone

On 22nd December, 2017, an indirect wholly-owned subsidiary of the Company, Great Fortune Development Limited, entered into a sale and purchase agreement with an independent third party, pursuant to which, Great Fortune Development Limited would dispose of all of its equity interests in Addchance International Limited, whose principal asset is its interest in Shenzhen Eastone, at a cash consideration of HK\$100.

The directors of the Company consider that, despite the development momentum of big data is fast and strong and the prospects of the big data industry is promising, it will have to draw considerable resources of the Group to successfully develop this new line of business into a profitable one. The Group therefore, after careful considerations, exited at this stage and will capture new opportunities in other arenas.

Addchance International Limited and Shenzhen Eastone had contributions to the loss for the year of approximately HK\$5,615,000 and net cash inflow of approximately HK\$1,172,000 of the Group during the year.

The disposal was completed on 27th December, 2017.

	HK\$'000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	2,329
Goodwill	8,899
Trade and other receivables, deposits and prepayments	13,025
Amount due from the Group	15,285
Loan receivable	8,000
Bank balances and cash	1,200
Trade and other payables	(2,288)
Tax liabilities	(5)
Other borrowings	(51,816)
	<hr/>
Net liabilities disposed of	(5,371)
	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

33. DISPOSAL OF SUBSIDIARIES – continued

(b) Addchance International Limited and Shenzhen Eastone – continued

HK\$'000

Gain on disposal:

Consideration received	–+
Reclassification of translation reserve upon disposal of foreign operation	139
Net liabilities disposed of	5,371
Less: non-controlling interests	(388)
	<hr/>
Gain on disposal	5,122

Net cash outflow arising on the disposal:

Cash consideration	–+
Less: bank balances and cash disposed of	(1,200)
	<hr/>
	(1,200)

+ Less than HK\$1,000

During the year ended 31st December, 2016, the Group has also completed the following disposal:

(c) Luoding Addchance

As disclosed in the announcement made by the Company dated 25th September, 2012 (the “Announcement”), the Group entered into an operation right transfer agreement (the “Agreement”) with an independent third party (the “Original Acquirer”) for the transfer of the operation rights of 100% interest in a subsidiary, Good Spread Industrial Limited (“Good Spread”), the immediate holding company of Luoding Addchance Limited, for a cash consideration of approximately HK\$554,321,000 which will be payable in six installments within five years from 31st December, 2012. The first two instalments of approximately HK\$184,774,000 in total have been received in 2012 and 2013 and the remaining four installments with an aggregate amount of approximately HK\$369,547,000 are originally scheduled to be received from 30th January, 2014 to 30th July, 2016.

Subject to fulfilment of all conditions precedent set out in the Agreement, the Original Acquirer can, within 60 days from the date when the Group has received the full amount of the first three installments of the consideration which should have taken place on 30th January, 2014 in accordance with the Agreement, subscribe for 99.999% of the enlarged issued share capital of news shares of Good Spread with an exercise price of HK\$1 per share.

During the year ended 31st December, 2013, the Company borrowed approximately HK\$184,774,000, the amount equal to the third and the fourth installments in total, from a bank and the Original Acquirer agreed to transfer fund to the Company to repay the loans when they fall due in December 2014. This arrangement of fund transfer would replace the third and the fourth installments which should originally be payable on 30th January, 2014 and 30th November, 2014, respectively. Due to the above arrangement, the third installments was considered not yet have been received and the pre-requisite conditions precedent set out in the Agreement (the “Conditions”) was considered not yet have been fulfilled on 30th January, 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

33. DISPOSAL OF SUBSIDIARIES – continued

(c) Luoding Addchance – continued

During the year ended 31st December, 2014, the Original Acquirer failed to transfer the agreed fund to the Company and transferred only approximately HK\$51,282,000 to the Company for the settlement of the bank loan while the maturity date of the remaining bank loan of approximately HK\$134,492,000 was agreed by the Company and the bank to be extended to December 2015 and the Conditions was considered not having been fulfilled on 31st December, 2014.

During the year ended 31st December, 2015, no amount of the above bank loan was repaid and the maturity date of the outstanding bank loan of approximately HK\$134,492,000 was agreed by the Company and the bank to be further extended to 31st December, 2016.

As at 31st December, 2015, the Group has received deposits of HK\$236,056,000 from the Original Acquirer and no impairment on assets classified as assets held for sale is considered necessary based on the consideration to be received for the disposal.

On 30th June, 2016, the Group and the Original Acquirer entered into a supplemental agreement to the Agreement and agreed to adjust the structure of the deal and offered the 100% of the registered capital in Luoding Addchance Limited (the “Luoding Addchance”) for public auction (the “Auction”).

On 23rd July, 2016, an independent third party (the “New Acquirer”) won the bid for the Auction with the bidding price of approximately RMB45,369,000 (equivalent to approximately HK\$51,282,000). The disposal has been completed on 13th December, 2016 (the “Completion”).

In addition to the said bidding price, the New Acquirer is required to, upon Completion, repay outstanding bank loans of the Group in the aggregate sum of approximately RMB155,109,000 (equivalent to approximately HK\$161,606,000) and settle with the Original Acquirer for, among other conditions, the deposits paid by the Original Acquirer to the Group of HK\$236,056,000 (which the Group will not refund the same to the Original Acquirer). Pursuant to the Auction, the New Acquirer shall also be responsible for all taxes, fees and land grant premium in connection with the acquisition of Luoding Addchance.

Assets of Luoding Addchance on completion of disposal:

	HK\$'000
Analysis of assets under assets held for sale over which control was lost:	
Property, plant and equipment	33,408
Prepaid lease payments	75,555
	<u>108,963</u>
Consideration:	
Consideration received	51,282
Repayment of bank loans of the Group by the New Acquirer	161,606
Repayment of deposit received from the Original Acquirer in prior years by the New Acquirer	236,056
	<u>448,944</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

33. DISPOSAL OF SUBSIDIARIES – continued

(c) Luoding Addchance – continued

	HK\$'000
Gain on disposal of Luoding Addchance:	
Consideration received	448,944
Net assets disposed of	(108,963)
Reclassification of translation reserve upon disposal of foreign operations	(10,986)
	<u>328,995</u>

The subsidiary disposed of did not have significant contribution to the results or cash flows of the Group during the year ended 31st December, 2016 prior to the Completion.

34. OPERATING LEASES

The Group as lessee

At the end of reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2017 HK\$'000	2016 HK\$'000
Within one year	5,275	1,115
In the second to fifth year inclusive	<u>7,233</u>	<u>3,606</u>
	<u>12,508</u>	<u>4,721</u>

Operating lease payments represent rental payable by the Group for its office premises. Leases are negotiated for an average term of two to five years with fixed rental.

35. PLEDGE OF ASSETS

At the end of the reporting period, the Group pledged the following assets to banks for the bank borrowings and credit facilities granted to the Group:

	2017 HK\$'000	2016 HK\$'000
Prepaid lease payments	9,393	20,858
Property, plant and equipment	<u>6,612</u>	<u>54,628</u>
	<u>16,005</u>	<u>75,486</u>

In addition, the entire shareholdings in a subsidiary of the Company as at 31st December, 2017 was pledged to an independent third party for the advances therefrom to the relevant subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

36. CAPITAL COMMITMENTS

	2017 HK\$'000	2016 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of a subsidiary (note 32)	—	1,000

37. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The qualified employees employed by the operations in the PRC are members of the state-managed retirement benefits schemes operated in the PRC. The PRC operations are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes operated by the PRC is to make the required contributions under the schemes.

During the year, the retirement benefits scheme contributions amounted to HK\$5,068,000 (2016: HK\$6,831,000).

38. RELATED PARTY DISCLOSURES

(a) Related party balances

Details of the outstanding balances with related parties are set out as below. The amounts due to related parties are unsecured, interest-free and repayable in August 2019. The effective interest rate is 7.5% per annum.

	2017 HK\$'000	2016 HK\$'000
Amounts due to:		
Mr. Poon Sum	8,833	—
Easy Joy Investments Limited (Note)	15,967	—
	<u>24,800</u>	<u>—</u>

Note: Mr. Poon Sum, an executive director of the Company, and his spouse have controlling interests in Easy Joy Investments Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

38. RELATED PARTY DISCLOSURES – continued

(b) Related party transactions

Save as disclosed elsewhere in the consolidated financial statements, during the year, the Group entered into the following transactions with related parties:

Related parties	Nature of transactions	2017 HK\$'000	2016 HK\$'000
RC Corporate Services Limited ("RC") (Note i)	Services fee paid by the Group	457	1,052
RCK Consulting Limited ("RCK") (Note i)	Services fee paid by the Group	25	60
Dr. Sung Chung Kwun (Note ii)	Rental expense paid/payable by the Group	N/A	371
Addchance Dyeing (Note ii)	Rental expense paid/payable by the Group	N/A	2,992

Notes:

- (i) Mr. Chui Chi Yun, Robert, a former non-executive director of the Company, has substantial interests in RC and RCK. On 23rd May, 2017, Mr. Chui Chi Yun, Robert was not re-elected as a non-executive director at the annual general meeting of the Company and ceased to be a director of the Company. The amounts for the year ended 31st December, 2017 represent the amounts incurred in the period from 1st January, 2017 up to the date Mr. Chui Chi Yun, Robert ceased to be a related party.
- (ii) A former substantial shareholders and former director of the Company. Dr. Sung Chung Kwun has beneficial interests in Addchance Dyeing. Dr. Sung Chung Kwun retired as a director of the Company on 31st May, 2013 and ceased to be substantial shareholder during the year ended 31st December, 2016. The amounts for the year ended 31st December, 2016 represent the amounts incurred in the period from 1st January, 2016 up to the date Dr. Sung Chung Kwun and Addchance Dyeing ceased to be related parties. In addition, Addchance Dyeing has arranged the execution of second mortgage in respect of its properties in favour of the Banks to secure the borrowings granted to the Group, as set out in note 28.

In addition, Mr. Poon Sum, a director of the Company, provided a personal guarantee to an independent third party for the Group's borrowing of principal amount of HK\$200,000,000 during the year ended 31st December, 2017, as set out in note 28.

(c) Key management compensation

Key management compensation for the year are as follows:

	2017 HK\$'000	2016 HK\$'000
Short-term benefits	10,276	12,161
Post-employee benefits	127	150
	<u>10,403</u>	<u>12,311</u>

The remuneration of directors and key executives of the Company is determined by the remuneration committee, having regard to the performance of individuals and market trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st December, 2017 and 2016 are as follows:

Name of subsidiary	Notes	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company				Principal activities
				Directly		Indirectly		
				2017	2016	2017	2016	
Interlink Atlantic Limited		BVI 24th November, 1999	Ordinary share US\$1	100%	100%	-	-	Investment holding
Addchance Limited		Hong Kong 2nd October, 1981	Ordinary shares HK\$1,500,000	-	-	100%	100%	Manufacturing and trading of dyed yarn, provision of yarn-dyeing services, trading of cotton raw white yarn and fancy yarn and property holding
Chinakey (Hong Kong) Limited		Hong Kong 22nd October, 1997	Ordinary shares HK\$1,000,000	-	-	100%	100%	Manufacturing and trading of knitted sweaters
Chinakey Global Limited		Hong Kong 15th August, 2016	Ordinary shares HK\$100	-	-	100%	100%	Manufacturing and trading of knitted sweaters
Sky Emperor International Limited		Hong Kong 12th March, 1997	Ordinary shares HK\$10,000	-	-	100%	100%	Trading of knitted sweaters
羅定互益染廠有限公司 Luoding Addchance Dyeing Factory Ltd.	(i)	The PRC 6th November, 1986	Registered capital US\$24,124,000	-	-	100%	100%	Provision of yarn dyeing services
廣西岑溪互益紡織有限公司 Cenxi Addchance Textile Factory Ltd.	(i)	The PRC 27th September, 2003	Registered capital US\$2,000,000	-	-	100%	100%	Provision of knitting services
廣西梧州互益紡織有限公司 Wu Zhou Addchance Textile Factory Limited	(i)	The PRC 16th December, 2005	Registered capital US\$3,500,000	-	-	100%	100%	Manufacturing of knitted sweaters
安慶市宿松互益精紡有限公司 Anqing Su Song Addchance Spinning Company Limited	(i)	The PRC 14th April, 2007	Registered capital US\$10,000,000	-	-	100%	100%	Manufacturing of cotton yarn
新疆博樂互益紡織有限公司 Xinjiang Bole Addchance Textile Limited	(i)	The PRC 3rd April, 2007	Registered capital US\$15,000,000 Paid up capital US\$13,200,000	-	-	100%	100%	Manufacturing of cotton yarn
Chung Yick Textile Factory Limited (Formerly known as Full Fortune Knitting Ltd.)	(ii)	Cambodia 30th July, 2007	Registered capital US\$7,000,000	-	-	100%	100%	Manufacturing and trading of knitted clothes, hat, gloves, socks and scarves
Dignity Knitter Limited	(ii)	Cambodia 26th May, 2011	Registered capital US\$2,000,000	-	-	100%	100%	Manufacturing and trading of knitted clothes, hat, gloves, socks and scarves

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES – continued

Name of subsidiary	Notes	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company				Principal activities
				Directly		Indirectly		
				2017	2016	2017	2016	
Great Honour Textile Factory Limited	(iii)	Cambodia 26th May, 2011	Registered capital US\$2,000,000	–	–	100%	100%	Manufacturing and trading of knitted clothes, hat, gloves, socks and scarves
Eco base Factory Limited		Cambodia 1st January, 2014	Registered capital US\$2,000,000	–	–	100%	100%	Manufacturing and trading of knitted clothes, hat, gloves, socks and scarves
Endless Rich Limited		BVI 2nd January, 2015	Registered capital US\$1	–	–	100%	100%	Investment in natural gas business
Endless Synergy Limited		BVI 5th July, 2016	Registered capital US\$100	–	–	100%	100%	Investment holding
Eternity Fortune Holdings Limited		BVI 2nd January, 2015	Registered capital US\$100	–	–	100%	100%	Investment holding
Grand Asset Limited		Hong Kong 28th April, 2017	Ordinary shares HK\$1	–	–	100%	N/A	Provision of human resource management
Grant Master Limited		Hong Kong 17th February, 2017	Ordinary shares HK\$100	–	–	100%	N/A	Provision of office services
Group Profit Holdings Limited		Hong Kong 4th December, 2013	Ordinary shares HK\$1,000	–	–	51%	51%	Trading of petroleum
Kinetic Treasure Limited		Hong Kong 8th September, 2015	Ordinary shares HK\$1	–	–	100%	100%	Manufacturing and trading of dyed yarn, provision of yarn-dyeing services and trading of cotton raw white yarn and fancy yarn
LW Asset Management Advisors Limited	(v)	Hong Kong 30th March, 2012	Ordinary shares US\$10,140,000	–	N/A	81.58%	N/A	Provision of asset management service
金達利股權投資基金管理(深圳)有限公司	(i) (v)	The PRC 18th January, 2017	Registered capital US\$2,000,000	–	N/A	81.58%	N/A	Provision of asset management service
張家港互益染整有限公司 Zhangjiagang Addchance Dyeing & Finishing Co., Ltd.	(i) (iv)	The PRC 9th March, 2001	Registered capital US\$35,044,000	–	–	–	100%	Manufacturing of dyed yarn and provision of dyeing services
張家港互益紡織有限公司 Zhangjiagang Addchance Spinnery Co., Ltd.	(i) (iv)	The PRC 12th December, 2003	Registered capital US\$12,000,000	–	–	–	100%	Manufacturing of knitted sweaters and provision of knitting services

Notes:

- (i) These companies are wholly-foreign owned enterprise.
- (ii) The registered capital has not yet been paid up as at 31st December, 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES – continued

Notes: – continued

- (iii) The subsidiary is in the process of winding up during the year ended 31st December, 2016 and 2017.
- (iv) These companies are disposed of during the year ended 31st December, 2017. Details are set out in note 33.
- (v) These companies are newly acquired during the year ended 31st December, 2017. Details are set out in note 32.

Except for Interlink Atlantic Limited, Endless Rich Limited, Endless Synergy Limited and Eternity Fortune Holdings Limited which were incorporated in BVI and operate in Hong Kong, all the above subsidiaries operate in their places of incorporation or establishment.

All subsidiaries are limited liability companies. none of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

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

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries are investment holding companies in Hong Kong and the PRC or inactive.

40. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows, were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Amounts due to former related parties HK\$'000	Amounts due to related parties HK\$'000	Interest payables HK\$'000	Bank and other borrowings HK\$'000	Obligations under finance leases HK\$'000	Total HK\$'000
At 1st January, 2017	50,198	–	14,169	611,256	–	675,623
Financing cash flows	(29,248)	27,963	(14,169)	(113,584)	(80)	(129,118)
<i>Non-cash changes</i>						
Finance costs	–	622	–	94,571	17	95,210
Deemed contributions from a shareholder and a related company arising from non-interest bearing advances therefrom	–	(3,785)	–	–	–	(3,785)
Hire purchase of property, plant and equipment	–	–	–	–	712	712
Disposal of subsidiaries (note 33)	–	–	–	(51,816)	–	(51,816)
Gain on debt restructuring	–	–	–	(166,396)	–	(166,396)
Foreign exchange translation	–	–	–	4,540	–	4,540
At 31st December, 2017	20,950	24,800	–	378,571	649	424,970

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2017 HK\$'000	2016 HK\$'000
Non-current Assets		
Interests in subsidiaries, unlisted	34,133	1
Amounts due from subsidiaries	348,165	155,013
	<u>382,298</u>	<u>155,014</u>
Current Assets		
Other receivables, deposits and prepayments	44,762	2,335
Bank balances and cash	19,471	58,327
	<u>64,233</u>	<u>60,662</u>
Current Liabilities		
Other payables	18,932	7,148
Amount due to a subsidiary	292,523	237,962
Bank and other borrowings-due within one year	9,926	25,000
	<u>321,381</u>	<u>270,110</u>
Net Current Liabilities	<u>(257,148)</u>	<u>(209,448)</u>
Total Assets less Current Liabilities	<u>125,150</u>	<u>(54,434)</u>
Capital and Reserves		
Share capital	53,967	8,467
Reserves (Note)	(22,535)	(84,711)
	<u>31,432</u>	<u>(76,244)</u>
Non-current Liabilities		
Amounts due to related parties	24,800	–
Bank and other borrowings-due after one year	68,918	21,810
	<u>93,718</u>	<u>21,810</u>
	<u>125,150</u>	<u>(54,434)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY – continued

Note:

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2016	431,560	227,072	(411,992)	246,640
Loss and total comprehensive expense for the year	–	–	(372,135)	(372,135)
Ordinary shares issued	43,005	–	–	43,005
Transaction costs attributable to issue of new ordinary shares	(2,221)	–	–	(2,221)
At 31st December, 2016	472,344	227,072	(784,127)	(84,711)
Loss and total comprehensive expense for the year	–	–	(255,140)	(255,140)
Ordinary shares issued	318,500	–	–	318,500
Transaction costs attributable to issue of new ordinary shares	(4,969)	–	–	(4,969)
Deemed contributions from a shareholder and a related company arising from non-interest bearing advances therefrom	–	3,785	–	3,785
At 31st December, 2017	785,875	230,857	(1,039,267)	(22,535)

The contributed surplus of the Company represents (i) the excess of the combined net assets of the subsidiaries acquired and the acquisition of amount due to a shareholder from Interlink Atlantic Limited, over the nominal value of the share capital of the Company issued in exchange in prior years thereof; less (ii) dividends paid in prior years; and (iii) deemed contributions arising from non-interest bearing advances from a shareholder and a company held by this shareholder and his spouse.

FINANCIAL SUMMARY

For the year ended 31st December, 2017

RESULTS

	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Revenue	<u>1,401,667</u>	<u>1,016,283</u>	<u>961,072</u>	<u>467,138</u>	<u>413,861</u>
Profit (loss) before taxation	61,328	(180,731)	(961,654)	(350,173)	(101,818)
Income tax (expense) credit	<u>(1,873)</u>	<u>(3,527)</u>	<u>10,525</u>	<u>405</u>	<u>(429)</u>
Profit (loss) for the year	<u>59,455</u>	<u>(184,258)</u>	<u>(951,129)</u>	<u>(349,768)</u>	<u>(102,247)</u>
Profit (loss) attributable to:					
Owners of the Company	59,455	(184,258)	(951,129)	(349,771)	(101,333)
Non-controlling interests	<u>–</u>	<u>–</u>	<u>–</u>	<u>3</u>	<u>(914)</u>
	<u>59,455</u>	<u>(184,258)</u>	<u>(951,129)</u>	<u>(349,768)</u>	<u>(102,247)</u>

ASSETS AND LIABILITIES

	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Total assets	2,691,972	2,641,692	1,712,118	881,655	710,013
Total liabilities	<u>(1,582,992)</u>	<u>(1,693,875)</u>	<u>(1,448,527)</u>	<u>(971,307)</u>	<u>(571,259)</u>
	<u>1,108,980</u>	<u>947,817</u>	<u>263,591</u>	<u>(89,652)</u>	<u>138,754</u>
Equity attributable to owners of the Company	1,108,980	947,817	263,591	(89,651)	136,845
Non-controlling interests	<u>–</u>	<u>–</u>	<u>–</u>	<u>(1)</u>	<u>1,909</u>
	<u>1,108,980</u>	<u>947,817</u>	<u>263,591</u>	<u>(89,652)</u>	<u>138,754</u>