CHINA TING GROUP HOLDINGS LIMITED
華鼎集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3398)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2018	2017	
	HK$ million	*HK$ million*	*Change*
Revenue			
OEM Business	**1,784.0**	1,855.3	(3.8)
Fashion Retail Business	**479.6**	480.1	(0.1)
Property Investment Business	**11.2**	—	N/A
	2,274.8	2,335.4	(2.6)
Operating profit	**49.0**	158.1	(69.0)
Profit attributable to the Company's equity holders	**21.0**	149.7	(86.0)
Dividend per share *(HK cent)*			
— Interim and special	**—**	1.97	
Dividend payout ratio	**N/A**	28%	
Equity attributable to the Company's equity holders	**2,611.3**	2,525.9	
Equity per share *(HK$)*	**1.24**	1.20	

The board (the "**Board**") of directors (the "**Directors**") of China Ting Group Holdings Limited (the "**Company**") wishes to announce the consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	**2018** *HK$'000*	2017 *HK$'000*
Revenue	*3*	**2,274,818**	2,335,429
Cost of sales		**(1,711,636)**	(1,670,143)
Gross profit		**563,182**	665,286
Other income	*4*	**21,476**	28,718
Other gains, net	*5*	**52,115**	12,849
Net impairment loss provided for financial assets		**(19,025)**	—
Selling, marketing and distribution costs		**(258,431)**	(277,417)
Administrative expenses		**(310,324)**	(312,478)
Reversal of impairment on loans to an associate		**—**	41,135
Operating profit		**48,993**	158,093
Finance income	*7*	**7,342**	11,346
Finance costs	*7*	**(10,603)**	(8,668)
Share of profits/(losses) of associates		**146**	(632)
Share of losses of joint ventures		**(4,603)**	(2,791)
Profit before income tax		**41,275**	157,348
Income tax expense	*8*	**(14,067)**	(16,901)
Profit for the year		**27,208**	140,447

	Note	**2018**	2017
		HK$'000	*HK$'000*
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		**(144,098)**	172,314
Fair value gains on transfers of owner-occupied properties to investment properties, net of tax		**207,638**	16,952
Release of exchange reserve to profit or loss upon deregistration of an associate		**—**	(20,278)
Other comprehensive income, net of tax		**63,540**	168,988
Total comprehensive income		**90,748**	309,435
Profit/(loss) attributable to:			
Equity holders of the Company		**21,045**	149,689
Non-controlling interests		**6,163**	(9,242)
		27,208	140,447
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		**85,349**	316,371
Non-controlling interests		**5,399**	(6,936)
		90,748	309,435
Earnings per share for profit attributable to the equity holders of the Company during the year *(expressed in HK cents per share)*			
— basic	*9*	**1.00**	7.13
— diluted	*9*	**1.00**	7.13

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2018

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**469,646**	568,050
Investment properties		**363,711**	88,721
Land use rights		**76,384**	70,334
Interests in associates		**1,846**	1,806
Interests in joint ventures		**14,690**	3,307
Intangible assets		**10,623**	22,301
Promissory note	*11*	**—**	34,978
Prepayments	*11*	**15,526**	—
Deferred income tax assets		**78,463**	80,862
		1,030,889	870,359
Current assets			
Inventories		**995,661**	944,406
Trade and other receivables	*11*	**746,107**	727,645
Tax recoverable		**9,939**	15,403
Available-for-sale financial assets		**—**	286,002
Financial assets at fair value through profit or loss ("FVPL")	*12*	**304,269**	19,967
Promissory note	*11*	**38,124**	1,936
Entrusted loans	*11*	**166,022**	174,443
Pledged bank deposits		**50,957**	28,939
Fixed deposits		**20,553**	—
Cash and bank balances		**448,547**	469,447
		2,780,179	2,668,188
Assets held for sale	*13*	**8,674**	—
		2,788,853	2,668,188
Total assets		**3,819,742**	3,538,547

	Note	2018 HK$'000	2017 HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**209,982**	209,982
Reserves		**2,401,303**	2,315,954
		2,611,285	2,525,936
Non-controlling interests		**28,724**	23,325
Total equity		**2,640,009**	2,549,261
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**83,136**	21,752
Current liabilities			
Trade and other payables	*14*	**694,161**	707,889
Contract liabilities	*3*	**29,534**	—
Bank borrowings		**367,057**	247,271
Current income tax liabilities		**5,845**	12,374
		1,096,597	967,534
Total liabilities		**1,179,733**	989,286
Total equity and liabilities		**3,819,742**	3,538,547

NOTES

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRS**") and disclosure requirements of the Hong Kong Companies Ordinance (Chapter 622 of the laws of Hong Kong). They have been prepared under the historical cost convention, as modified by the revaluation of FVPL and investment properties, which are carried at fair value and assets held for sale which are carried at fair value less cost to sell.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) New and amended standards and interpretations adopted by the Group

The following new and amended standards and interpretations have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2018:

Amendment to HKFRS 1	First time adoption of HKFRS
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions
Amendments to HKFRS 4	Insurance contracts — Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts
HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers
Amendment to HKAS 28	Investments in associates and joint ventures
Amendments to HKAS 40	Transfers of investment property
HK (IFRIC) 22	Foreign currency transactions and advance consideration
Amendments to HKFRSs	Annual improvements to HKFRSs standards 2014–2016 cycle

The Group had to change its accounting policies and make certain retrospective adjustments following the adoption of HKFRS 9 and HKFRS 15 (see Note 1.2). Most of the other new and amended standards and interpretations listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New and amended standards and interpretations not yet adopted

		Effective for annual periods beginning on or after
HK (IFRIC) 23	Uncertainty over income tax treatments	1 January 2019
Amendments to HKFRS 9	Prepayment features with negative compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
Amendments to HKAS 19	Plan amendment, curtailment or settlement	1 January 2019
Amendments to HKAS 28	Long-term interests in associates and joint ventures	1 January 2019
Amendments to HKFRSs	Annual improvements to HKFRSs standards 2015–2017 cycle	1 January 2019
HKFRS 3 (Revised)	Business combinations	1 January 2020
Conceptual framework for financial reporting 2018	Revised conceptual framework for financial reporting	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor, associate or joint venture	To be determined

None of the above new standards and amendments is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the consolidated balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The Group has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of HK$22,792,000. Of these commitments, approximately HK$10,160,000 relate to short-term leases or low value leases which will both be recognised on a straight-line basis as expense in the consolidated profit or loss.

For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately HK$11,941,000 and lease liabilities of HK$11,711,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018) on 1 January 2019. Overall net assets will be approximately HK$230,000 higher, and net current assets will be HK$4,184,000 lower due to the presentation of a portion of the liability as a current liability.

The Group does not foresee any material impact on the net profit of the Group as a result of adoption of HKFRS 16.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

1.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" on the Group's consolidated financial statements.

(a) Impact on the consolidated financial statements

As explained in notes below, HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not restated in the consolidated balance sheet as at 31 December 2017, but are recognised in the opening consolidated balance sheet on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Consolidated balance sheet (extract)	31 December 2017 As originally presented	HKFRS 9	HKFRS 15	**1 January 2018 Restated**
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
Current assets				
Trade and other receivables	727,645	(17,528)	—	**710,117**
Available-for-sale financial assets	286,002	(286,002)	—	**—**
FVPL	19,967	303,530	—	**323,497**
Total assets	1,033,614	—	—	**1,033,614**
Current liabilities				
Trade and other payables	707,889	—	(29,912)	**677,977**
Contract liabilities	—	—	29,912	**29,912**
Total liabilities	707,889	—	—	**707,889**

(b) HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

(i) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management assessed which business models apply to the financial assets it held and has reclassified its investments in Zhejiang Haoran Property Company Limited ("**Zhejiang Haoran**") previously classified as available-for-sale and loans and receivables into the appropriate HKFRS 9 categories.

The main effects resulting from this reclassification are as follows:

	Available-for-sale financial assets *HK$'000*	Other receivables *HK$'000*	FVPL *HK$'000*	Total *HK$'000*
Closing balance as at 31 December 2017 — HKAS 39	286,002	17,528	—	303,530
Reclassified available-for-sale financial assets to FVPL	(286,002)	—	286,002	—
Reclassified other receivables to FVPL	—	(17,528)	17,528	—
Opening balance as at 1 January 2018 — HKFRS 9	—	—	303,530	303,530

The Group elected to present in the profit or loss changes in the fair value of its 29% equity interest in Zhejiang Haoran that was previously classified as available-for-sale because management plans to dispose such investment in the foreseeable future. As a result, an asset with a fair value of HK$43,617,000 was reclassified from available-for-sale financial assets to FVPL on 1 January 2018.

The shareholder's loans and advances granted to Zhejiang Haoran were reclassified from available-for-sale and other receivables to FVPL as the contractual cash flows under such financial assets do not represent solely payments of principal and interest on the principal amount.

There was no impact on retained earnings as at 1 January 2018.

(ii) Impairment of financial assets

The Group has only one type of financial assets, which is financial assets carried at amortised cost, that is subject to HKFRS 9's new expected credit loss model.

The Group was required to revise its impairment methodology under HKFRS 9 for such class of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is not material.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, except for those individually significant trade receivables or trade receivables at default which are to be tested individually. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the invoice dates.

(c) HKFRS 15 Revenue from Contracts with Customers

The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) was recognised in retained earnings as at 1 January 2018 and that comparatives was not restated.

The Group is engaged in the manufacturing and trading of garments and property investment.

The Group's obligations to provide a refund for faulty products are under the standard warranty terms. Accumulated experience is used to estimate such returns at the time of sale. Because of the large volume and low value of each individual product, the amount of products returned were immaterial. It is highly probable that a significant reversal in the cumulative revenue recognised will not occur. Therefore, no refund liability for goods return was recognised. The validity of this assumption and the estimated amount of returns are reassessed at the end of each reporting period.

The Group does not incur costs to fulfil contracts which should be capitalised as they relate directly to the contracts, generate resources used in satisfying the contract and are expected to be recovered.

The Group does not have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. Thus, the Group does not adjust any of the transaction prices for the time value of money.

As a result, other than certain reclassification of contract liabilities, the adoption of HKFRS 15 did not result in any net impact on the profit for the period, as the timing of revenue recognition on sales of products and rental income is not changed.

The following adjustment was made to the amounts recognised in the consolidated balance sheet at the date of initial application (1 January 2018):

	Trade and other payables	**Contract liabilities**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Closing balance as at 31 December 2017 — HKAS 18	707,889	—	707,889
Reclassified other payables to contract liabilities	(29,912)	29,912	—
Opening balance as at 1 January 2018 — HKFRS 15	677,977	29,912	707,889

2 FINANCIAL RISK FACTORS

Impairment of financial assets

The Group has two types of financial assets that are subject to the expected credit loss model:

— Trade receivables

— Other financial assets at amortised costs

While cash and bank balances are also subject to the impairment requirements of HKFRS 9, the identified impairment loss is immaterial.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, except for those individually significant trade receivables or trade receivables at default which are tested individually.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 December 2018 or 1 January 2018, respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are further adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables are written off when there is no reasonable expectation of recovery. Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet identified. For these receivables, the estimated impairment losses were recognised in a separate provision for impairment. Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Other financial assets at amortised cost

Other financial assets at amortised cost include promissory note, entrusted loans and other receivables (except for prepayments). Management assesses the credit quality of the counterparties, taking into account the historical risk of default and capacity to meet its contractual cash flow obligations in the near term.

These financial assets at amortised cost, except for the entrusted loans which an impairment loss has been provided for (See Note 11), are considered to be of low credit risk primarily because historically they had no history of default and the debtors had a strong capacity to meet its contractual cash flow obligations in the near term. For entrusted loans, the fair value of pledged collaterals are sufficient to cover their carrying amounts. No impairment losses are provided for such financial assets as at 31 December 2018 and 1 January 2018.

3 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the executive directors. The executive directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The executive directors assess the performance of the operating segments based on profit before income tax, which is consistent with that in the financial statements. Other information, as noted below, is also provided to the executive directors.

During the year ended 31 December 2018, the Group started to engage in property investment in the PRC and such new business changed the executive directors' review on the Group's segment performance and resource allocation over that in prior years. Currently, the executive directors consider the Group has four reportable segments: (1) manufacturing and sale of garments on an OEM basis ("**OEM**"); (2) manufacturing and retailing of branded fashion apparel ("**Retail**"); (3) property development in the PRC ("**Property development**"); and (4) property investment in the PRC ("**Property investment**").

Total segment assets exclude certain investment properties located in Hong Kong, corporate assets, listed securities within FVPL and entrusted loans, all of which are managed on a central basis. These are part of the reconciliation to total balance sheet assets.

Turnover comprises sale of goods and rental income. Sales between segments are carried out based on terms agreed. The revenue from external parties reported to the executive directors is measured in a manner consistent with that in the consolidated statement of comprehensive income.

	OEM *HK$'000*	**Retail** *HK$'000*	**Property development** *HK$'000*	**Property investment** *HK$'000*	**Total** *HK$'000*
Year ended 31 December 2018					
Total revenue	**1,799,594**	**479,604**	—	**14,842**	**2,294,040**
Inter-segment revenue	**(15,553)**	—	—	**(3,669)**	**(19,222)**
Revenue (from external customers)	**1,784,041**	**479,604**	—	**11,173**	**2,274,818**
Timing of revenue recognition					
At a point in time	**1,784,041**	**479,604**	—	—	**2,263,645**
Over time	—	—	—	**11,173**	**11,173**
	1,784,041	**479,604**	—	**11,173**	**2,274,818**
Segment profit/(loss) before income tax	**105,664**	**(58,688)**	—	**4,825**	**51,801**
Depreciation of property, plant and equipment	**(71,135)**	**(25,016)**	—	—	**(96,151)**
Amortisation of land use rights	**(1,514)**	**(32)**	—	—	**(1,546)**
Amortisation of intangible assets	**(4,256)**	**(2,442)**	—	—	**(6,698)**
Impairment loss on goodwill	**(4,930)**	—	—	—	**(4,930)**
Finance income	**7,129**	**213**	—	—	**7,342**
Finance costs	**(8,637)**	**(1,966)**	—	—	**(10,603)**
Share of losses of joint ventures	—	**(4,603)**	—	—	**(4,603)**
Income tax (expense)/credit	**(22,059)**	**9,198**	—	**(1,206)**	**(14,067)**

	OEM *HK$'000*	Retail *HK$'000*	Property development *HK$'000*	Total *HK$'000*
Year ended 31 December 2017				
Total revenue	1,881,921	480,310	—	2,362,231
Inter-segment revenue	(26,614)	(188)	—	(26,802)
Revenue (from external customers)	1,855,307	480,122	—	2,335,429
Timing of revenue recognition				
At a point in time	1,855,307	480,122	—	2,335,429
Segment profit/(loss) before income tax	185,684	(78,534)	45,668	152,818
Depreciation of property, plant and equipment	(71,027)	(26,279)	—	(97,306)
Amortisation of land use rights	(4,701)	(32)	—	(4,733)
Amortisation of intangible assets	(5,193)	(2,442)	—	(7,635)
Finance income	6,471	342	4,533	11,346
Finance costs	(6,721)	(1,947)	—	(8,668)
Reversal of impairment loss on loans to an associate	—	—	41,135	41,135
Share of losses of joint ventures	—	(632)	—	(632)
Impairment loss on available-for-sale financial assets	—	(2,791)	—	(2,791)
Income tax expense	(8,604)	(8,297)	—	(16,901)

	OEM *HK$'000*	Retail *HK$'000*	Property development *HK$'000*	Property investment *HK$'000*	Total *HK$'000*
As at 31 December 2018					
Total segment assets	**1,977,042**	**992,556**	**288,876**	**336,711**	**3,595,185**
Total segment assets include:					
Interests in associates	**1,846**	**—**	**—**	**—**	**1,846**
Interests in joint ventures	**—**	**14,690**	**—**	**—**	**14,690**
FVPL	**—**	**—**	**288,876**	**—**	**288,876**
Additions to non-current assets (other than financial instruments and deferred income tax assets)	**52,039**	**18,778**	**—**	**—**	**70,817**
Tax recoverable	**8,555**	**1,384**	**—**	**—**	**9,939**
Deferred income tax assets	**15,676**	**62,787**	**—**	**—**	**78,463**
As at 31 December 2017					
Total segment assets	1,987,008	1,039,211	286,002	—	3,312,221
Total segment assets include:					
Interests in associates	1,806	—	—	—	1,806
Interest in a joint venture	—	3,307	—	—	3,307
Available-for-sale financial assets	—	—	286,002	—	286,002
Additions to non-current assets (other than financial instruments and deferred income tax assets)	38,007	20,362	—	—	58,369
Tax recoverable	15,403	—	—	—	15,403
Deferred income tax assets	23,639	57,223	—	—	80,862

A reconciliation of reportable segments' profit before income tax to total profit before income tax is provided as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Total segment profit before income tax	**51,801**	152,818
Net fair value (losses)/gains on FVPL	**(3,822)**	10,429
Corporate overhead	**(7,400)**	(6,653)
Rental income	**696**	754
Profit before income tax per consolidated statement of comprehensive income	**41,275**	157,348

A reconciliation of reportable segments' assets to total assets is provided as follows:

	2018	2017
	HK$'000	*HK$'000*
Total segment assets	**3,595,185**	3,312,221
FVPL	**15,393**	19,967
Corporate assets	**16,142**	3,616
Investment properties	**27,000**	28,300
Entrusted loans	**166,022**	174,443
Total assets per consolidated balance sheet	**3,819,742**	3,538,547

The Company is domiciled in the Cayman Islands. The results of its revenue from external customers based on the destination of the customers are as follows:

	2018	2017
	HK$'000	*HK$'000*
The PRC	**1,216,129**	1,157,691
North America	**820,163**	940,988
European Union	**196,928**	181,152
Hong Kong	**25,556**	33,617
Other countries	**16,042**	21,981
	2,274,818	2,335,429

The total of non-current assets other than interests in associates, interests in joint ventures, promissory note and deferred income tax assets (there are no employment benefit assets and rights arising under insurance contracts) located in the following geographical areas are as follows:

	2018	2017
	HK$'000	*HK$'000*
The PRC	**774,616**	593,898
Hong Kong	**144,545**	151,719
North America	**2,613**	3,789
	921,774	749,406

For the year ended 31 December 2018, revenues of approximately HK$316,404,000 (2017: HK$386,920,000) are derived from a single external customer (2017: Same). These revenues are attributable to the OEM reportable segment and accounted for greater than 10% of the Group's revenue. There are no other customers which individually accounted for more than 10% of the Group's total revenue (2017: Same).

The contract liabilities represent the advance payments received from counterparties for goods or services that have not yet been transferred or provided to the counterparties. As at 31 December 2018, the Group has recognised the following liabilities related to contracts with customers:

	2018	2017
	HK$'000	*HK$'000*
Current contract liabilities	**29,534**	—

The following table shows the amount of the revenue recognised in the year ended 31 December 2018 relates to carried-forward contract liabilities:

	2018	2017
	HK$'000	*HK$'000*
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**23,718**	—

The Group expects their performance obligations under the contracts with customers to be satisfied over a period of no more than 2 years.

4 OTHER INCOME

	2018	2017
	HK$'000	*HK$'000*
Compensation received *(Note 12)*	—	10,277
Rental income	**6,210**	9,945
Commission income	**4,953**	3,694
Scrap sales	**1,301**	1,987
Government grants	**2,846**	783
Investment income	**2,556**	168
Others	**3,610**	1,864
	21,476	28,718

5 OTHER GAINS, NET

	2018	2017
	HK$'000	*HK$'000*
Net exchange gains/(losses)	**31,637**	(4,217)
Fair value gains on investment properties	**4,133**	2,186
Fair value (loss)/gain on FVPL — unrealised	**(3,869)**	5,059
Fair value gain on FVPL — realised	**47**	5,370
(Loss)/gain on disposal of property, plant and equipment	**(3,959)**	3,902
Reversal of provision for customer claims	**1,985**	549
Gain on requisition and demolition of property, plant and equipment and land use rights *(Note)*	**27,071**	—
Impairment loss on goodwill	**(4,930)**	—
	52,115	12,849

Note: During the year ended 31 December 2018, the Group's property, plant and equipment and land use rights located in Hangzhou, of a net book value of HK$13,278,000, were made requisition of by local government to be demolished and/or relocated. Relevant compensation amounted to HK$40,349,000 were granted by local government with this regard, resulting in a net gain of HK$27,071,000. Such compensation has been fully received by the Group during the year ended 31 December 2018.

6 OPERATING PROFIT

	2018	2017
	HK$'000	*HK$'000*
Amortisation of land use rights	**1,546**	4,733
Amortisation of intangible assets	**2,442**	3,903
Depreciation of property, plant and equipment	**96,151**	97,306

7 FINANCE INCOME AND COSTS

	2018 *HK$'000*	2017 *HK$'000*
Finance income — interest income on		
— bank deposits	**4,265**	3,668
— loans to an associate	**—**	4,533
— promissory notes	**3,077**	3,145
	7,342	11,346
Finance costs		
— interest expense on bank borrowings	**(10,149)**	(8,668)
— other interest expense	**(454)**	—
	(10,603)	(8,668)
Finance (cost)/income, net	**(3,261)**	2,678

8 INCOME TAX EXPENSE

	2018 *HK$'000*	2017 *HK$'000*
Current income tax		
— Hong Kong profits tax *(Note (a))*	**8,663**	16,164
— PRC enterprise income tax *(Note (b))*	**16,077**	14,202
— Over-provision in prior years	**(4,005)**	(58)
Withholding tax	**—**	1,074
Deferred income tax	**(6,668)**	(14,481)
	14,067	16,901

Notes:

(a) Hong Kong profits tax has been provided for at the rate of 8.25% on the estimated assessable profit up to HK$2,000,000 and 16.5% on any part of estimated assessable profit over HK$2,000,000 for the year ended 31 December 2018.

Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profit for the year ended 31 December 2017.

(b) The PRC enterprise income tax is calculated based on the statutory profit of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations. The standard PRC enterprise income tax rate is 25% during the years ended 31 December 2018 and 2017.

During the years ended 31 December 2018 and 2017, a subsidiary of the Group, Hangzhou Fuxi Fashion Co. Ltd., is qualified for a preferential income tax rate of 15% under the tax breaks to small and micro business. The remaining PRC subsidiaries of the Group are subject to standard PRC enterprise income tax rate of 25%.

9 EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company of approximately HK$21,045,000 (2017: HK$149,689,000) and weighted average number of ordinary shares in issue during the year of 2,099,818,000 (2017: 2,099,818,000).

(b) Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares.

During the years ended 31 December 2018 and 2017, there were no dilutive potential ordinary shares deemed to be issued under the share option scheme as there are no outstanding options as at 31 December 2018 and 2017.

10 DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Interim dividend, Nil (2017: HK1.41 cents per ordinary share)	**—**	29,607
Interim special dividend, Nil (2017: HK0.56 cent per ordinary share)	**—**	11,759
	—	41,366

At a meeting held on 22 March 2019, the directors did not propose any special dividend or final dividend for the year ended 31 December 2018.

11 TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade and bill receivables *(Note (i))*	**528,710**	498,981
Less: Loss allowance	**(66,137)**	(48,650)
Trade and bill receivables, net	**462,573**	450,331
Amounts due from related parties	**45,649**	15,226
Promissory note *(Note (ii))*	**38,124**	36,914
Entrusted loans *(Note (iii))*	**166,022**	174,443
Advances to Zhejiang Haoran	**—**	17,528
Prepayments	**143,074**	126,689
Deposits and other receivables	**110,336**	117,871
	965,778	939,002
Non-current portion		
— Promissory note *(Note (ii))*	**—**	34,978
— Prepayments for property, plant and equipment	**15,526**	—
Current portion	**950,252**	904,024
	965,778	939,002

The amounts due from related parties are unsecured, interest-free and repayable on demand.

Notes:

(i) Trade and bill receivables

The ageing analysis of gross trade and bill receivables based on invoice date is as follows:

	2018	2017
	HK$'000	*HK$'000*
Up to 30 days	**239,711**	284,150
31 to 60 days	**71,560**	73,796
61 to 90 days	**58,526**	50,326
91 to 120 days	**94,501**	38,152
Over 120 days	**64,412**	52,557
	528,710	498,981

For OEM garment sales, the Group's trade receivables from its customers are generally settled by way of letters of credit or telegraphic transfer with credit periods of not more than 90 days. The grant of open account terms without security coverage is generally restricted to large or long-established customers with good repayment history. Sales to these customers comprise a significant proportion of the Group's OEM garment sales. On the other hand, for new and existing customers with short trading history, letters of credit issued by these customers are normally demanded for settlement purposes.

For sales of branded fashion apparel to franchisees, the Group normally requests payments in advance or deposits from such customers, with the remaining balances settled immediately upon delivery of goods. The Group also grants open account terms of 30 credit days to long-established customers with good repayment history.

Retail sales are settled in cash, by credit cards, through internet payment service providers or collected by department stores/online retailers on behalf of the Group. The agreed credit terms with credit card companies are usually within 14 days. Department stores and online retailers are normally required to settle the proceeds to the Group within 2 months from the date of sale.

Bill receivables are with average maturity dates of within 2 months.

The carrying amounts of trade and other receivables approximate their fair values.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, except for those individually significant trade receivables or trade receivables at default which are to be tested individually.

The loss allowance increased approximately by a further HK$19,025,000 for trade receivables during the current year.

Movements on the allowance for impairment of trade receivables are as follows:

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**48,650**	50,655
Charged to the consolidated profit or loss	**19,025**	14,894
Write off	**—**	(17,316)
Reversal of provision	**—**	(979)
Exchange differences	**(1,538)**	1,396
At 31 December	**66,137**	48,650

(ii) Promissory note

The promissory note represents a senior unsecured promissory note with original principal amounted to US$10,000,000 (equivalent to approximately HK$77,350,000) converted from trade receivables due from a major customer which will be payable in various installments until July 2019. The promissory note is interest-bearing at 5.25% per annum.

(iii) Entrusted loans

On 24 December 2012, the Group entered into three secured entrusted loans ("**Entrusted Loan A**") with total principals amounting to RMB30,000,000 (approximately HK$35,562,000) due from a company established in the PRC ("**Borrower A**") through a lending agent, a commercial bank in the PRC. Entrusted Loan A is interest-bearing at 18% per annum payable on a quarterly basis and the principal would be payable on or before 25 December 2014. An affiliate of Borrower A pledged to the lending agent certain number of properties located at Yuhang District in Hangzhou as collaterals.

Further on 5 February 2013, the Group entered into another eight secured entrusted loans ("**Entrusted Loan B**") with total principals amounting to RMB130,000,000 (approximately HK$154,101,000) due from a company established in the PRC, an affiliate of Borrower A ("**Borrower B**"), through a lending agent, a commercial bank in the PRC. Entrusted Loan B is interest-bearing at 18% per annum payable on a monthly basis and the principal would be payable on or before 5 February 2014. An affiliate of Borrower B pledged to the lending agent a parcel of land located at Lin'an City in Hangzhou as collateral.

On 27 January 2014, the Group renewed Entrusted Loan B with the borrower for twelve months from the original expiry date of 5 February 2014 to 5 February 2015. The terms and conditions of Entrusted Loan B, other than the repayment period, remained unchanged.

Corporate and personal guarantees were provided by affiliates of Borrower A and B in favour of the lending agents to secure the obligations of Borrower A and B under the entrusted loan agreements.

In June 2014, there was a failure for Borrower A and B to settle the interest within the agreed payment schedules set forth in the agreements for both Entrusted Loan A and B.

On 5 August 2014, the lending agent of Entrusted Loan B had reached eight civil claim mediation agreements with Borrower B, in which Borrower B had agreed to pay the principal of Entrusted Loan B amounting to RMB130,000,000 and the interest due up to 20 June 2014 before 31 October 2014. In addition, according to the civil claim mediation agreements, Borrower B was required to settle the interest incurred during the period from 21 June 2014 to the date of settlement at 22.5% per annum.

On 17 November 2014, the lending agent of Entrusted Loan A had reached three civil claim mediation agreements with Borrower A, in which Borrower A had agreed to pay the principal of Entrusted Loan A amounting to RMB30,000,000 and the interest due at the rate of 18% per annum before 30 November 2014.

Borrower A and B failed to settle the principal and the related interest in accordance with the civil claim mediation agreements by 30 November 2014.

On 18 November 2014, Borrower A and B filed voluntary bankruptcy at the People's Court of Yuhang District which then approved the appointment of the administrator and accepted the petition for bankruptcy proceedings. In February 2015, the Group lodged proof of debts through its lending agents to the administrator in respect of the claims. The first creditors' meetings were held on 19, 20 March and 2 April 2015.

Two rounds of open tenders were held by the administrator in November 2017 and March 2018, respectively, to identify potential restructuring investors, which were both terminated with no qualified investor identified. The third round of open tender commenced in March 2019 and is still in progress as at the date of this report.

As at 31 December 2018 and 2017, the fair value of the pledged collaterals held by the Group for entrusted loans is determined based on the valuation performed by the valuer using market based valuation techniques with reference to current prices in an active market of similar properties.

As at 31 December 2018, Entrusted Loan A of approximately HK$16,169,000 (2017: HK$16,990,000) was impaired. Based on the valuation performed by the valuer, fair value of the pledged collaterals for Entrusted Loan A and B is higher than such entrusted loans' carrying amounts. The directors are of the opinion that there is no further impairment for Entrusted Loan A and B as at 31 December 2018.

Movements of the entrusted loans are as follows:

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**174,443**	160,974
Exchange differences	**(8,421)**	13,469
At 31 December	**166,022**	174,443

12 FVPL

	2018	2017
	HK$'000	*HK$'000*
Listed equity securities *(Note (i))*	**15,393**	19,967
FVPL in Zhejiang Haoran *(Note (ii))*		
— Equity interests	**41,511**	—
— Shareholder's loans	**230,683**	—
— Advances	**16,682**	—
	288,876	—
	304,269	19,967

Movement of the Group's FVPL for the year ended 31 December 2018 is as follows:

	Listed equity securities	**FVPL in Zhejiang Haoran**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
At 1 January 2018	**19,967**	**—**	**19,967**
Additions	**136**	**—**	**136**
Disposals	**(12)**	**—**	**(12)**
Reclassified from available-for-sale financial assets on adoption of HKFRS 9 *(Note 1.2)*	**—**	**286,002**	**286,002**
Reclassified from other receivables on adoption of HKFRS 9 *(Note 1.2)*	**—**	**17,528**	**17,528**
Fair value loss — unrealised *(Note 5)*	**(3,869)**	**—**	**(3,869)**
Exchange differences	**(829)**	**(14,654)**	**(15,483)**
At 31 December 2018	**15,393**	**288,876**	**304,269**

Movement of the Group's FVPL for the year ended 31 December 2017 is as follows:

	Listed equity securities
	HK$'000
At 1 January	19,498
Additions	413
Disposals	(6,360)
Fair value gain — unrealised *(Note 5)*	5,059
Exchange differences	1,357
At 31 December 2017	19,967

Notes:

(i) The fair value of all equity securities is based on their current bid prices in an active market.

(ii) FVPL in Zhejiang Haoran

Zhejiang Haoran is a company engaged in commercial property development in Hangzhou. The principal asset of Zhejiang Haoran is a commercial property project located in Hangzhou (the "**Property**"), which is valued using direct comparison approach.

Repayment of the shareholder's loans of RMB211,285,000 (approximately HK$240,996,000) has been in default since 2014. In June 2016, the Group initiated a legal action against Zhejiang Haoran for the repayment of a portion of the loans amounted to RMB8,700,000 (approximately HK$10,313,000). In March 2017, the People's Court of Yuhang District decided in favour of the Group and the Group subsequently collected the relevant loan together with a compensation of interest of RMB8,895,000 (approximately HK$10,277,000) (Note 4).

The Group further issued two demand letters to Zhejiang Haoran to demand for the repayment of a portion of the shareholder's loans of RMB172,700,000 (approximately HK$196,652,000) and part of the advances of RMB7,250,000 (approximately HK$8,256,000) in March 2017 and August 2017, respectively. Legal actions had been initiated subsequent to the issue of the demand letters.

In June and August 2018, the aforesaid legal actions for repayment of shareholder's loans and advances against Zhejiang Haoran were rejected by the Hangzhou Intermediate People's Court and the People's Court of Yuhang District (collectively the "Courts"), respectively. Whilst the judgements from the Courts stated that the Group has the legal right to recover such amounts, it was of the view of the Courts that the Group would not be able to request for immediate repayment for repayment until Zhejiang Haoran has settled all third-party debts. Management has disagreed with the Courts' judgments on the basis that there is no legal evidence indicating such shareholder's loans and advances are subordinated to other creditors or otherwise such loans could only be repaid at the time of winding up of Zhejiang Haoran. In July and August 2018, the Group lodged appeals to the relevant courts in the PRC for the repayment claims regarding the shareholder's loans and advances, respectively, and sought to overturn the judgements rendered for each of the claims. In February 2019, the appeals were dismissed by the relevant court and the original judgements made by the Courts were remained unchanged.

During the year ended 31 December 2018, the Group took further legal actions against Zhejiang Haoran including a petition to wind up Zhejiang Haoran as a shareholder and to enforce its right as a shareholder of Zhejiang Haoran to access books and records. The petition to wind up was overruled by the Hangzhou Intermediate People's Court in November 2018, but the Courts ruled that the Group has the right to access to certain documents and records of Zhejiang Haoran as a shareholder, including the sales contracts of the Property, in February 2019.

Having considered the litigation results, the Group decided that it will continue to pursue recovery of its FVPL in Zhejiang Haoran through petition to the Trial Supervision Division of the Higher People's Court of Zhejiang Province and/or the Supreme People's Court of the People's Republic of China (the "**Supreme People's Court**") to seek for retrial of the Group's petitions to demand for immediate repayment from Zhejiang Haoran. Moreover, the Group will inspect certain documents and records of Zhejiang Haoran in order to collect more information about its business and financial performance upon the expiration of appeal period for such judgement.

As advised by the Group's legal counsel as to the PRC law and after considering the merits and basis of the legal proceedings between Zhejiang Haoran and the Group, despite of the aforesaid appeals lodged by the Group being dismissed by the relevant court, the directors of the Company are of the opinion that the Group will be successful in the forthcoming legal proceedings. Thus, the directors of the Company considers the assumptions and basis applied in the fair value assessment of the FVPL in Zhejiang Haoran, continued to represent their best estimates and such financial assets will be realised in the coming twelve months from 31 December 2018.

The Group was unable to obtain any financial information of Zhejiang Haoran as at and for the year ended 31 December 2018. As such, the fair value of FVPL in Zhejiang Haoran as at 31 December 2018 was estimated by management using the Adjusted NAV approach based on Zhejiang Haoran's financial information as at 31 December 2016, which was its latest financial information made available to the Group. The fair value of the Property has been adjusted to take into account the latest market price movements of similar properties at nearby locations during the current year assuming the construction of the Property has been completed during the year. Interest expense for the current year has been accrued for interest-bearing liabilities outstanding as at 31 December 2016 and assuming the balance outstanding and the interest rates remained unchanged from those as at 31 December 2016. Construction costs incurred subsequent to 31 December 2016 have been accrued up to mid-2018 which is the assumed completion date of the construction of the Property, assuming such costs have been incurred in accordance with the original project budget provided to the Group with certain overruns. Other assumptions adopted in the valuation, including but not limited to the minority interest discount rate, were assumed to remain unchanged from those as at 31 December 2017.

13 ASSETS HELD FOR SALE

As at 31 December 2018, property, certain plant and equipment and land use rights located in Heshan of approximately HK$5,154,000 and HK$3,520,000, respectively, have been presented as held for sale following the decision of the Group's management to sell such assets in the near term to cooperate with Heshan local government's "three old" transformation for old towns, old factories and old villages. At the date of this report, such assets held for sale are open to tender through public auction platforms. The Group has been working with local government and currently in the process of identifying appropriate potential buyers.

14 TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade and bill payables	**503,088**	475,551
Other payables and accruals	**189,804**	231,293
Amounts due to related parties	**1,269**	1,045
	694,161	707,889

The ageing analysis of trade and bill payables based on invoice date is as follows:

	2018	2017
	HK$'000	*HK$'000*
Up to 30 days	**304,335**	329,734
31 to 60 days	**65,514**	41,063
61 to 90 days	**32,570**	24,604
Over 90 days	**100,669**	80,150
	503,088	475,551

Bill payables are with average maturity dates of within 2 months.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT TO BE ISSUED ON THE GROUP'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

"**Our qualified opinion**

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

BASIS FOR QUALIFIED OPINION

As discussed in note 16 to the consolidated financial statements, the Group held financial assets at fair value through profit or loss of HK$289 million ("**FVPL in Zhejiang Haoran**") as at 31 December 2018 with respect to Zhejiang Haoran Property Company Limited ("**Zhejiang Haoran**"), representing the Group's equity interests in, shareholder's loans and advances granted to Zhejiang Haoran. The Group is continuing to seek for recovery of a portion of the shareholder's loan and advance to Zhejiang Haoran and to enforce its right as a shareholder of Zhejiang Haoran to access the books and records of Zhejiang Haoran through legal proceedings.

In assessing the fair value of FVPL in Zhejiang Haoran as at 31 December 2018, management adopted the adjusted net asset value ("**Adjusted NAV**") approach to estimate the fair value of FVPL in Zhejiang Haoran, which was described in notes 4(a) and 16(ii) to the consolidated financial statements. However, the Group was unable to obtain any financial information of Zhejiang Haoran as at and for the year ended 31 December 2018 due to the court judgement and further appeals. As such, the fair value of FVPL in Zhejiang Haoran as at 31 December 2018 was estimated by management using the Adjusted NAV approach based on Zhejiang Haoran's financial information as at 31 December 2016, which was its latest financial information available to the Group. A number of assumptions were adopted using Zhejiang Haoran's financial information as at 31 December 2016 to arrive at the estimated fair value as at 31 December 2018, the details of which were described in note 16(ii) to the consolidated financial statements. In addition, having obtained advice from the Group's legal counsel and after considering the merits and basis of the legal proceedings between Zhejiang Haoran and the Group, despite of the appeals as referred in note 16(ii) to the consolidated financial statements lodged by the Group being dismissed by the relevant court, the directors of the Company are of the opinion that the Group will be successful in the forthcoming legal proceedings.

Thus, the directors of the Company considered that it is appropriate the assumptions and basis applied in the fair value assessment of the FVPL in Zhejiang Haoran that such financial assets will be realised in the coming twelve months from 31 December 2018.

As at the date of this report, the outcomes of legal proceedings between Zhejiang Haoran and the Group are uncertain. We were unable to obtain sufficient appropriate audit evidences we considered necessary to assess management's valuation and classification of the FVPL in Zhejiang Haoran as at 31 December 2018, including a written opinion from the Group's legal counsel in relation to the likelihood of success of the legal proceedings and the probabilities of any other outcomes, the latest financial information of Zhejiang Haoran, a valuation from an independent valuer on the relevant property owned by Zhejiang Haoran, and direct access to the management of Zhejiang Haoran to assess the appropriateness of the financial information, the assumptions and the basis adopted by management in their assessment of the fair value of FVPL in Zhejiang Haoran. Given the scope limitation, there were no other satisfactory audit procedures that we could perform to determine whether any adjustments to the carrying value of the FVPL in Zhejiang Haoran as at 31 December 2018 were necessary, and whether the classification of FVPL in Zhejiang Haoran as current assets was appropriate.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion."

MANAGEMENT DISCUSSION AND ANALYSIS

(1) Business Review

In 2018, amid the latest development of China-US trade tension and trade protectionism worldwide, and the effect of various coastal political factors, the global economic development has failed to achieved satisfactory performance since the middle of the year. Moreover, the exchange rates between Renminbi and US dollar experienced drastic fluctuations, and international trading risk remained at high levels throughout the year. In the PRC, the focus was still laid on investments in real estate and other fixed assets against the backdrop of the stock market slump in China, resulting in decreased liquidity and unfavourable appetite for consumption on the domestic consumption market.

In 2018, the US remained the Group's major market. Due to the China-US trade tension, the Group recorded a turnover of HK$1,784.0 million from OEM/ODM business, representing a decrease of 3.8% as compared to HK$1,855.3 million in 2017. Against this unfavourable situation, the Group completed comprehensive modifications and information-based operation of the flexible and intelligent manufacturing equipment for women's fashion apparel items, thereby creating a digitalized supply chain system. The Group exerted fashion vigorous efforts in refining the internal management structure by setting up three manufacturing business divisions with close industry-trade integration, to provide customers with better services and expand market presence.

With regards to the retail business, the Group focused its efforts on further strengthening its design, research and development capability, improving its management team and brand operating capability, and expanding the scope of cooperation with quality sales channel providers in 2018. Besides, the Group also collaborated with different platforms to develop e-commerce business. The revenue generated from the retail business amounted to HK$479.6 million in 2018, which was relatively stable as compared with 2017.

With regards to the weaving business and the printing and dyeing business, it was relocated in 2018 and the equipment has been upgraded, so as to meet the increasingly stringent requirements on production with environmental protection. We also improved our product processing capability through technical improvement to provide our customers with products of good quality.

(2) Financial Review

Review of operations

During the year ended 31 December 2018, the Group's revenue amounted to HK$2,274.8 million, representing a decrease of 2.6% when compared with the total revenue of the Group of HK$2,335.4 million in 2017. The gross profit for the year ended 31 December 2018 was HK$563.2 million, representing a decrease of 15.3% as compared with HK$665.3 million in 2017. As a result, the net profit attributable to equity holders of the Company for the year ended 31 December 2018 was HK$21.0 million and the net asset value per share as at 31 December 2018 was HK$1.24.

OEM and ODM business

During the year of 2018, the revenue derived from our OEM/ODM business recorded a decrease of 3.8% from HK$1,855.3 million in 2017 to HK$1,784.0 million in 2018. Products made from silk, cotton and synthetic fabrics continue to be the major products which contributed HK$1,402.3 million (2017: HK$1,285.9 million), representing 78.6% (2017: 69.3%) of the total turnover of our OEM/ODM business for the year ended 31 December 2018.

In respect of market concentration, sales to the market in the United States of America ("**US**") amounted to HK$820.2 million in 2018 (2017: HK$941.0 million), which accounted for 46.0% (2017: 50.7%) of the OEM/ODM revenue. Sales to European Union and other markets in 2018 were HK$196.9 million (2017: HK$181.2 million) and HK$767.0 million (2017: HK$733.1 million), respectively.

Fashion retail business

During the year ended 31 December 2018, the retail sales of the Group amounted to HK$479.6 million, representing a similar level when compared with the revenue of HK$480.1 million in 2017. Finity, the major brand of the Group, contributed HK$200.4 million to the retail business, representing a decrease of 10.6% as compared with HK$224.2million for the year 2017.

In terms of retail revenue analysis by sales channels, sales from concessionary counters amounted to HK$232.7 million (2017: HK$295.1 million), accounting for 48.5% of total retail turnover for the year ended 31 December 2018. Sales from e-commerce, freestanding stores and franchisees for the year ended 31 December 2018 amounted to HK$119.8 million (2017: HK$67.5 million), HK$35.5 million (2017: HK$27.2 million) and HK$91.7 million (2017: HK$90.3 million), respectively.

Property Investment Business

In 2018, the Group has changed part of the industrial complex to the China Ting International Fashion Base ("華鼎國際時尚產業基地") in order to facilitate the regional development, fashion expert localisation and e-commerce development for the fashion industry. All these provide significant contribution to the fashion industry in Yu Hang District, Hangzhou, while allowing the Group to develop diversified business models and enhance revenue.

During the year ended 31 December 2018, the revenue from our property investment business amounted to HK$11.2 million (2017: nil).

Liquidity and financial resources

The Group continues to retain a solid financial position. During the year, the Group's working capital needs were principally supported by the financial resources generated from its ordinary course of business. As of 31 December 2018, the cash and cash equivalents were HK$448.5 million, representing a decrease of 4.5% from HK$469.4 million as of 31 December 2017. The Group had bank borrowings of HK$367.1 million as of 31 December 2018 (2017: HK$247.3 million). The debt to equity ratio (total borrowings as a percentage of total equity) was 13.9% (2017: 9.7%). The Directors consider that the Group has adequate financial resources to support its working capital requirement and future expansion.

The sales of the Group are mainly denominated in US dollars and Renminbi and the purchase of raw materials are mainly made in Renminbi, US dollars and Hong Kong dollars. As of 31 December 2018, all cash and cash equivalents, and bank borrowings were mainly denominated in US dollars, Renminbi and Hong Kong dollars. Hence, the Group has no significant exposure to foreign exchange risk.

Entrusted loans to Zhongdou Group and Zhongdou Shopping Centre

The Company announced the updated status of the NBC Entrusted Loans and the BOCOM Entrusted Loans in its announcements dated 10 February 2015, 10 December, 3 November, 19 August, 23 June 2014 and 5 February 2013 (the "**Entrusted Loans Announcements**"). The total amount of these two entrusted loans is RMB160.0 million (equivalent to HK$191.4 million). The borrowers of these two entrusted loans have failed to make repayments, and the borrowers and the related companies, namely 中都控股集團有限公司 (Zhongdou Group Holdings Limited*), 浙江中都房地產集團有限公司 (Zhejiang Zhongdou Property Group Company Limited*), 浙江中都百貨有限公司 (Zhejiang Zhongdou Department Store Company Limited*), 杭州中都購物中心有限公司 (Hangzhou Zhongdou Shopping Centre Company Limited*) have filed voluntary bankruptcy at the People's Court of Yuhang District, Hangzhou City. A creditor served a petition for bankruptcy proceedings against 浙江臨安中都置業有限公司 (Zhejiang Linan Zhongdou Property Company Limited*) which has pledged a parcel of land to secure due performance of obligations under the NBC Entrusted Loan, at the People's Court of Yuhang District, Hangzhou City.

In respect of such proceedings, the People's Court of Yuhang District, Hangzhou City, approved the appointment of the administrator and accepted the petition for bankruptcy proceedings. The first creditors' meetings were held on 19, 20 March and 2 April 2015.

Pursuant to the order, each of the Bank of Communications Limited, Zhejiang Branch and Ningbo Bank Corporation lodged a proof of debt to the administrator in respect of the claims under the BOCOM Entrusted Loans and NCB Entrusted

Loans in the amount of RMB33.6 million (equivalent to HK$40.2 million) and RMB141.8 million (equivalent to HK$169.7 million) on 9 February 2015 and 16 February 2015, respectively.

Two rounds of open tender were held by the administrator in November 2017 and March 2018, respectively, to identify potential restructuring investors, which were both terminated with no qualified investor identified. The third round of open tender commenced in March 2019 and is still progress up to the date of this report.

As at 31 December 2018 and 2017, the fair value of the pledged collaterals held by the Group for entrusted loans is determined based on the valuation performed by the Valuer using market based valuation techniques with reference to current prices in an active market of similar properties.

At as 31 December 2018, Entrusted Loan A of approximately HK$16,169,000 (2017: HK$16,990,000) was impaired. Based on the valuation performed by the Valuer, fair value of the pledged collaterals for Entrusted Loan A and B is higher than such entrusted loans' carrying amounts. The directors are of the opinion that there is no further impairment for Entrusted Loan A and B as at 31 December 2018.

(3) Outlook

The Group has completed the modifications and information-based operation of the apparel manufacturing equipment, which has significantly improved the efficiency and flexibility in manufacturing capability of our factories in response to the market demand for OEM/ODM business. Meanwhile, the Group has recognised the necessity for re-locating the production capacity, and will construct production base in the PRC and Southeast Asia within the next three to five years.

Going forward, the Group will spend more efforts on the development of new products and customer services, expand the customer base that comprises customers from traditional sales channels to cover those from new retail channels, and proactively take advantage of various digital means to improve the efficiency and quality of the customer service.

As for the retail business of the Group, it will increase the investment to expand the market share of existing brands and develop new retail business, put in place effective control on inventories, and apply "big-data" technology to the development of the Group's retail business. In the meanwhile, the Group will introduce premium international brands proactively and put more efforts on the cultivation of new designer brands to ensure the all-round development of the Group's brand retail business.

The weaving business and the printing and dyeing business underwent comprehensive modifications and relocation in 2018, and the plant and machinery are resumed for production after modifications. The Group will promote the development of the weaving business and printing and dyeing business by focusing on the market demand, emphasizing on environmental protection and ecological conservation and enhancing the core strengths of technological innovation, so as to firmly maintain the Group advantage in the supply chain as a one-stop purchase destination.

Hangzhou has provided the Group with good foundation for the operations of its industrial park. Despite the economic pressure from various neighboring industrial parks, the Group's industrial park still managed to deliver outstanding performance because of its location and infrastructure. With the advancement of urbanization, the Group's industrial park will enjoy a more prominent advantage in terms of transport location, thus providing more favorable conditions for the Group to further the operations of our industrial park in greater depth.

(4) Human Resources

As of 31 December 2018, the Group had approximately 6,300 full-time employees. Staff costs for 2018 stand at HK$538.0 million, remaining stable when compare with previous year.

The Group recognises the importance of good relationships with its employees and has adopted an incentive bonus scheme for them, under which bonuses are determined every year based on the performance of individual employees and with reference to the Group's annual profits and performance. Our Directors believe that a competitive remuneration package, a safe and comfortable workplace, and career development opportunities are incentives for employees to excel in their areas of responsibilities.

Pursuant to the applicable laws and regulations, the Group has participated in relevant defined contribution retirement schemes administrated by the Chinese government authorities for the Group's employees in China. For the Group's employees in Hong Kong, all the arrangements pursuant to the mandatory provident fund requirements set forth under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) are duly implemented. There is no mandatory retirement schemes under the applicable laws and regulations in the US. The Group has not implemented retirement schemes for the Group's employees in the US.

QUALIFIED AUDIT OPINION IN RELATION TO FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS WITH RESPECT OF ZHEJIANG HAORAN PROPERTY COMPANY LIMITED ("ZHEJIANG HAORAN")

Background information

Since 2009, Zhejiang China Ting Group Company Limited ("**Zhejiang China Ting Group**"), a subsidiary of the Company, has acquired 100.0% equity interest in Zhejiang Huize Investment Company Limited (currently known as Hangzhou China Ting Industrial Investment Limited) ("**Hangzhou China Ting**") (which holds 29% of the equity interest in Zhejiang Haoran) and shareholder's loan of RMB172.7 million and accrued interest and tax payment of RMB29.88 million for cash consideration of RMB60.0 million. The original purpose of such investment was to participate in the development of an office building in Hangzhou, the People's Republic of China (the "**PRC**") to which the Group planned to relocate its headquarters. However, there are disagreements between the Group and the other shareholders of Zhejiang Haoran as to the financing to the project, the repayment of the shareholder's loan and allocation of certain units in the office building development project as and when it is completed. As of 31 December 2018, the book value of the Group's equity investment in Zhejiang Haoran and the amount of the advances and shareholder's loan, which are treated as financial assets at fair value through profit or loss ("**FVPL**"), were HK$288.9 million. Zhejiang Haoran has been in default in the repayment of the shareholder's loan. Despite various requests for the repayment of the shareholder's loan during the period between 2014 and 2016, Zhejiang Haoran failed to repay the requested amount of interest and the outstanding principal. Hence, in June 2016, Hangzhou China Ting issued a demand letter to Zhejiang Haoran for the recovery of part of the outstanding principal and the interest accrued thereon in the aggregate amount of RMB8.7 million (equivalent to HK$10.3 million) and the related legal proceedings were commenced before the People's Court of Yuhang District in 2016. The judgement was made by the court in March 2017 in favour of Hangzhou China Ting, pursuant to which Zhejiang Haoran was required to settle the claimed outstanding principal of the shareholder's loan and related interest in the amount of RMB8.9 million. The amount was settled by Zhejiang Haoran in April 2017.

Subsequent to the settlement of the above claimed amount, Hangzhou China Ting commenced two legal proceedings before the People's Court of Yuhang District in March 2017 and August 2017 for the advances and shareholder's loan in the amount of RMB7.3 million and RMB172.7 million, respectively. Hence, the entire outstanding amount of the shareholder's loan (other than the principal amount of RMB8.7 million) is requested to be settled by Zhejiang Haoran pursuant to the two ongoing legal proceedings. The hearing of the second legal proceedings was transferred to the Hangzhou Intermediate People's Court (the "**Intermediate Court**") according to the related legal procedures in the PRC, and the management of Zhejiang Haoran has started refusing to provide to the Group the required information for the purpose of the Group's preparation of the consolidated financial statements since 2017.

In June 2018, the Intermediate Court handed down the judgment that Hangzhou China Ting does not have the right to seek early repayment of the principal of the shareholder's loan of RMB172.7 million. Such right cannot be exercised unless Zhejiang Haoran is in the process of dissolution. With the advice from PRC legal advisers, Hangzhou China Ting has lodged an appeal against the decision in July 2018.

In June and August 2018, the aforesaid legal actions for repayment of shareholder's loans and advances against Zhejiang Haoran were rejected by the Hangzhou Intermediate People's Court and the People's Court of Yuhang District (collectively the "Courts"), respectively. Whilst the judgements from the Courts stated that the Group has the legal right to recover such amounts, it was of the view of the Courts that the Group would not be able to request for immediate repayment for repayment until Zhejiang Haoran has settled all third-party debts. Management has disagreed with the Courts' judgments on the basis that there is no legal evidence indicating such shareholder's loans and advances are subordinated to other creditors or otherwise such loans could only be repaid at the time of winding up of Zhejiang Haoran. In July and August 2018, the Group lodged appeals to the relevant courts in the PRC for the repayment claims regarding the shareholder's loans and advances, respectively, and sought to overturn the judgements rendered for each of the claims. In February 2019, the appeals were dismissed by the relevant court and the original judgements made by the Courts were remained unchanged.

During the year ended 31 December 2018, the Group took further legal actions against Zhejiang Haoran including a petition to wind up Zhejiang Haoran as a shareholder and to enforce its right as a shareholder of Zhejiang Haoran to access books and records. The petition to wind up was overruled by the Hangzhou Intermediate People's Court in November 2018, but the Courts ruled that the Group has the right to access to certain documents and records of Zhejiang Haoran as a shareholder, including the sales contracts of the Property, in February 2019.

Having considered the litigation results, the Group decided that it will continue to pursue recovery of its FVPL in Zhejiang Haoran through petition to the Trial Supervision Division of the Higher People's Court of Zhejiang Province and/or the Supreme People's Court of the People's Republic of China to seek for retrial of the Group's petitions to demand for immediate repayment from Zhejiang Haoran. Moreover, the Group will inspect certain documents and records of Zhejiang Haoran in order to collect more information about its business and financial performance upon the expiration of appeal period for such judgement.

As advised by the Group's legal counsel as to the PRC law and after considering the merits and basis of the legal proceedings between Zhejiang Haoran and the Group, despite of the aforesaid appeals lodged by the Group being dismissed by the relevant court, the directors of the Company are of the opinion that the Group will be successful in the forthcoming legal proceedings. Thus, the directors of the Company considers the assumptions and basis applied in the fair value assessment of the FVPL in Zhejiang Haoran, continued to represent their best estimates and such financial assets will be realised in the coming twelve months from 31 December 2018.

In light of the foregoing and because of the refusal of the management of Zhejiang Haoran to provide to the Group with information on the financial standing of Zhejiang Haoran for the purpose of the Group's preparation of its consolidated accounts, the auditor of the Company first issued modified review opinion in respect of the value of the available for sale financial assets in the Group's interim results for the six months ended 30 June 2017. Similar qualified audit opinion was contained in the auditor's report for the consolidated financial statements for the year ended 31 December 2017. The auditor of the Company has issued the same qualified audit opinion in relation to the same subject matter in the auditor's report for the consolidated financial statements of the Group for the year ended 31 December 2018.

Information previously requested by the auditor of the Company

The auditor of the Company advised the Board that in order to assess the appropriateness of the estimation of the fair value of the investment in Zhejiang Haoran, a valuation of the fair value of such investment would be required, together with detailed supporting materials on the following areas:

(1) the latest shareholding structure of Zhejiang Haoran for the purpose of determining whether the Group is still one of the equity holders of Zhejiang Haoran holding 29.0% of the equity interest of Zhejiang Haoran;

(2) the latest development of the legal proceedings against Zhejiang Haoran;

(3) a PRC legal opinion on the rights of the Group in respect of its equity investments in Zhejiang Haoran;

(4) financial information on Zhejiang Haoran as of and for the year ended 31 December 2018;

(5) fair value estimation of the Group's equity interest in Zhejiang Haoran, including detailed assessment regarding the minority interest discount rate applied in the valuation;

(6) assessment regarding adopted unit rate (i.e. unit selling price of the property) applied in the valuation of the construction in progress of Zhejiang Haoran; and

(7) the construction progress of the property under construction and the estimated cost to complete as of 31 December 2018.

The auditor of the Company also requested direct access to the management of Zhejiang Haoran to discuss and understand the detailed operation status and the financial situation of Zhejiang Haoran.

In response to the auditor's requests, the Group had issued a letter to Zhejiang Haoran on 17 January 2019 to request for the information. However, Zhejiang Haoran refused to provide any information on the ground that there is an ongoing litigation between Zhejiang Haoran and certain subsidiaries of the Group. In the absence of cooperation by Zhejiang Haoran, the following information can only be provided to or obtained by the auditor of the Company for the purpose of carrying out of the audit on the consolidated financial statements of the Company as of and for the year ended 31 December 2018:

(a) An independent search conducted by the auditor of the Company which indicated that a subsidiary of the Company is still the registered owner of 29.0% of the equity interest in Zhejiang Haoran as of 31 December 2018.

(b) The then latest progress of the litigations against Zhejiang Haoran has been communicated to the auditor of the Company by the PRC legal adviser to the Company.

(c) The PRC legal adviser to the Company has issued a legal opinion to the Group on the then latest status of the litigation.

(d) In the absence of any updated financial information of Zhejiang Haoran as of and for the year ended 31 December 2018, the Directors used the financial information of Zhejiang Haoran as of and for the year ended 31 December 2016 as the basis in determining the fair value of the equity interest in Zhejiang Haoran held by the Group, with certain adjustments taking into consideration the latest market price movements of comparable properties at nearby locations during the year ended 31 December 2018, the interest expense for the year ended 31 December 2018 and the construction costs incurred subsequent to 31 December 2016 up to mid-2018 which is the assumed completion date of the construction.

(e) The price of the property has been adjusted upward by referring to the latest market price movements of similar properties at nearby locations based on the desktop research performed by the Directors.

All other assumptions adopted in the valuation, including but without limitation to the minority interest discount rate, remain unchanged from that as of 31 December 2017.

In the course of audit of the Group's consolidated financial statements for the year ended 31 December 2018, the auditor of the Company has requested and obtained the updated version of aforesaid information that reflected the latest progress. Apart from that, in light of the development of the litigations subsequent to 31 December 2018, the following additional information has been requested by the auditor of the Company in the course of their audit of the Group's consolidated financial statements for the year ended 31 December 2018:

(1) A PRC legal opinion on the likelihood of success of the forthcoming legal proceedings, the likelihood of other outcomes and the estimated time required for such proceedings and claim to close and settle; and

(2) The bases and assumptions adopted by the Directors in the fair value assessment of the financial assets in relation to Zhejiang Haoran as at 31 December 2018, including a valuation performed by an independent valuer on the relevant property owned by Zhejiang Haoran, the Directors' estimated likelihood of success of the forthcoming legal proceedings, the probability of other outcomes and the time required for such proceedings and claim to close and settle.

In response to the auditor's request, the Directors have sought legal advice from Zhejiang T&C Law Firm and have been advised that Zhejiang T&C Law Firm was not able to advise the likelihood of success of the forthcoming legal proceedings, the likelihood of other outcomes and the estimated time required for such proceedings and claim to close and settle in light of the complexity of the legal proceedings.

Regarding the basis and assumptions adopted by the Directors in the fair value assessment, the Directors took into account the likelihood of success of the legal proceedings and the likelihood of other outcomes in the assessment and considered the fair value of the financial assets under each outcome. The Directors referred to the valuation of certain portion of the Property assessed by external valuers in the course of the litigations to determine the fair value of the Property as at 31 December 2018. They are of the opinion that the Group will be successful in the legal proceedings, the likelihood of other possible outcomes is very low and such financial assets will be realised in the coming twelve months from 31 December 2018.

The views of the audit committee (the "Audit Committee") of the Board on the qualified audit opinion

At the meeting of the Audit Committee of the Board held on 22 March 2019, the independent non-executive Directors, being members of the Audit Committee, reviewed the bases of determining the fair value of the Group's equity investment in Zhejiang Haoran and discussed with the management of the Group and the auditor of the Company any alternative that may be adopted in determining such fair value. The Audit Committee agreed on the fair value estimation approach and the determination of the fair value as it represented the best estimates available to the Group. The Audit Committee also agreed that the auditor of the Company was not able to verify certain parameters/assumptions/information adopted in the valuation and thus the issuance of a qualified audit opinion is understandable.

The Audit Committee also requested the management of the Group to take all necessary actions to the effect that no such qualified audit opinion will need to be made in the forthcoming audited financial statements.

CORPORATE GOVERNANCE

The Board is committed to enhancing the corporate governance of the Group in internal control and compliance; adhere to business code of ethics and advocate environmental awareness. The Group periodically reviews, updates and improve all such necessary measures with reference to the latest corporate governance developments in order to promote good corporate governance.

The Company has during the year ended 31 December 2018 complied with the code provisions of the Corporate Governance Code and the Corporate Governance Report set forth in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**").

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the model code for securities transactions by directors of listed issuers (the "**Model Code**") set forth in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiries, all the Directors confirmed that they have complied with the required standard set forth in the Model Code throughout the year ended 31 December 2018.

The Company has received, from each of the independent non-executive Directors, a confirmation of his independence pursuant to rule 3.13 of the Listing Rules. The Board considers that all the independent non-executive Directors are independent.

AUDIT COMMITTEE

In compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code, the Board has established an audit committee (the "**Audit Committee**") to review the financial reporting procedures and risk management and internal control matters with management and our Group's auditors and provide guidance thereto. The members of the Audit Committee comprise all the three independent non-executive Directors. The Audit Committee has considered and reviewed the annual results of the Group for the financial year ended 31 December 2018 and the accounting principles and practices adopted by the Group and discussed matters in relation to risk management and internal control and financial reporting with the management and the independent auditor.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS HONG KONG

The financial figures in this announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Group's external auditor, PricewaterhouseCoopers Hong Kong ("**PwC**"), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and consequently no assurance has been expressed by PwC on this announcement.

PURCHASE, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's shares during the year ended 31 December 2018.

ANNUAL REPORT AND DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

This announcement is published on the websites of the Company and the Stock Exchange. The annual report of the Company for the year ended 31 December 2018 containing all the information required by the Listing Rules will be dispatched to shareholders of the Company (the "**Shareholders**") and available on the websites of the Stock Exchange and the Company in due course.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held in May 2019. A notice convening the annual general meeting will be published on the websites of the Stock Exchange and the Company and will be despatched to the Shareholders in due course.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2018.

APPRECIATION

The Board would like to take this opportunity to express its gratitude to all Shareholders, customers, suppliers, banks, professional parties, business partners, management team and employees of the Company for their continuous support and contribution to the Group.

GENERAL INFORMATION

As of the date of this announcement, the Board comprises the following Directors:

Executive Directors
Mr. TING Man Yi *(Chairman)*
Mr. TING Hung Yi *(Chief Executive Officer)*
Mr. DING Jianer
Mr. CHEUNG Ting Yin, Peter

Independent non-executive Directors
Mr. CHENG Chi Pang
Mr. LEUNG Man Kit
Mr. WONG Chi Keung

By Order of the Board
CHINA TING GROUP HOLDINGS LIMITED
CHENG Ho Lung, Raymond
Company Secretary

Hong Kong, 22 March 2019

* *for identification purpose only*