Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 458)

ANNOUNCEMENT OF 2017 ANNUAL RESULTS

FINANCIAL SUMMARY OF 2017 ANNUAL RESULTS

- Revenue of HK$1,923 million
- Loss attributable to equity shareholders of HK$64 million
- Loss per share of HK$0.24

RESULTS

The board of directors (the "Board") of Tristate Holdings Limited (the "Company") presents the consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2017 together with comparative figures for 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Note	**2017** ***HK$'000***	2016 *HK$'000*
Revenue	2, 3	**1,922,706**	2,253,655
Cost of sales		**(1,500,872)**	(1,724,106)
Gross profit		**421,834**	529,549
Other income and other gains	4	**30,990**	87,777
Selling and distribution expenses		**(98,939)**	(174,103)
General and administrative expenses		**(421,218)**	(506,425)
Loss from operations	5	**(67,333)**	(63,202)
Finance income	6	**4,457**	7,217
Finance costs	6	**(4,310)**	(5,942)
Loss before tax		**(67,186)**	(61,927)
Income tax credit/(expense)	7	**2,206**	(24,684)
Loss for the year		**(64,980)**	(86,611)
Attributable to:			
Equity shareholders of the Company		**(64,180)**	(84,091)
Non-controlling interests		**(800)**	(2,520)
Loss for the year		**(64,980)**	(86,611)
Loss per share attributable to equity shareholders of the Company:			
Basic	9	**HK$(0.24)**	HK$(0.31)
Diluted	9	**HK$(0.24)**	HK$(0.31)

Details of dividends payable to equity shareholders of the Company are set out in Note 8.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017	2016
	HK$'000	*HK$'000*
Loss for the year	**(64,980)**	(86,611)
Other comprehensive income, net of nil tax unless specified:		
Items that may be reclassified subsequently to profit or loss		
Fair value changes on cash flow hedges		
Gains/(losses) arising during the year	**43,063**	(24,912)
Transferred to and included in the following line items in the consolidated statement of profit or loss:		
Cost of sales	**5,558**	9,886
General and administrative expenses	**1,037**	2,487
Exchange difference on translation of financial statements of overseas subsidiaries	**73,518**	(48,603)
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans and long service payment liabilities	**(1,857)**	2,044
Income tax effect	**296**	(515)
Other comprehensive income for the year	**121,615**	(59,613)
Total comprehensive income for the year	**56,635**	(146,224)
Attributable to:		
Equity shareholders of the Company	**57,435**	(143,704)
Non-controlling interests	**(800)**	(2,520)
Total comprehensive income for the year	**56,635**	(146,224)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	**As at 31 December 2017 *HK$'000***	As at 31 December 2016 *HK$'000*
Non-Current Assets			
Property, plant and equipment		**325,958**	332,149
Leasehold land and land use rights		**136,392**	130,863
Intangible assets		**208,334**	189,527
Other long-term assets		**12,708**	10,809
Deferred tax assets		**4,669**	5,782
Defined benefit plan assets		**7,769**	7,735
Forward foreign exchange contracts		**382**	–
Interest in an associate		**–**	–
		696,212	676,865
Current Assets			
Inventories		**231,769**	242,527
Accounts receivable and bills receivable	10	**264,864**	278,451
Forward foreign exchange contracts		**913**	316
Prepayments and other receivables		**74,709**	154,827
Current tax recoverable		**1,054**	552
Cash and bank balances		**512,990**	523,241
		1,086,299	1,199,914
Current Liabilities			
Accounts payable and bills payable	11	**105,537**	88,129
Accruals and other payables		**195,508**	210,848
Forward foreign exchange contracts		**6,239**	19,629
Current tax liabilities		**5,535**	10,422
Bank borrowings		**98,871**	198,905
		411,690	527,933
Net Current Assets		**674,609**	671,981
Total Assets Less Current Liabilities		**1,370,821**	1,348,846
Non-Current Liabilities			
Retirement benefits and other post retirement obligations		**24,500**	19,812
License fees payable		**26,613**	24,938
Deferred tax liabilities		**25,221**	31,434
Forward foreign exchange contracts		**1,399**	36,689
		77,733	112,873
Net Assets		**1,293,088**	1,235,973
Capital and Reserves			
Share capital		**27,161**	27,161
Reserves		**1,268,875**	1,210,960
Total equity attributable to equity shareholders of the Company		**1,296,036**	1,238,121
Non-controlling interests		**(2,948)**	(2,148)
Total Equity		**1,293,088**	1,235,973

Notes:

1. Statement of Compliance and Basis of Preparation of the Financial Statements

The consolidated results set out in this announcement do not constitute the Group's annual consolidated financial statements for the year ended 31 December 2017 but are extracted from those financial statements.

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

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

The consolidated financial statements for the year ended 31 December 2017 comprise the Group and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the derivative financial instruments are stated at their fair values.

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

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

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in the annual report to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financial activities, including both change arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2. Segment information

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

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

	Garment manufacturing		**Brands business**		**Unallocated**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue	**1,708,701**	1,882,471	**224,785**	377,513	**–**	–	**1,933,486**	2,259,984
Less: Inter-segment revenue	**(10,780)**	(6,329)	**–**	–	**–**	–	**(10,780)**	(6,329)
Revenue	**1,697,921**	1,876,142	**224,785**	377,513	**–**	–	**1,922,706**	2,253,655
Reportable segment profit/(loss) before tax	**18,831**	71,230	**(67,770)**	(79,663)	**(18,247)**	(53,494)	**(67,186)**	(61,927)
Income tax (expense)/ credit	**(2,843)**	(11,278)	**(139)**	(276)	**5,188**	(13,130)	**2,206**	(24,684)
Reportable segment profit/(loss) for the year	**15,988**	59,952	**(67,909)**	(79,939)	**(13,059)**	(66,624)	**(64,980)**	(86,611)

2. Segment Information (Continued)

	Garment manufacturing		Brands business		Unallocated *(Note (i))*		Total	
	As at 31 December 2017	As at 31 December 2016	**As at 31 December 2017**	As at 31 December 2016	**As at 31 December 2017**	As at 31 December 2016	**As at 31 December 2017**	As at 31 December 2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment assets	**736,643**	755,941	**368,245**	433,417	**677,623**	687,421	**1,782,511**	1,876,779
Reportable segment liabilities	**284,738**	303,666	**105,814**	138,235	**98,871**	198,905	**489,423**	640,806

	Garment manufacturing		Brands business		Unallocated *(Note (i))*		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Finance income	**–**	–	**118**	1,915	**4,339**	5,302	**4,457**	7,217
Finance costs	**–**	–	**(1,484)**	(492)	**(2,826)**	(5,450)	**(4,310)**	(5,942)
Amortisation of leasehold land and land use rights	**(300)**	(312)	**–**	–	**(3,204)**	(3,264)	**(3,504)**	(3,576)
Amortisation of intangible assets	**–**	–	**(6,172)**	(23,090)	**–**	–	**(6,172)**	(23,090)
Depreciation on property, plant and equipment	**(30,872)**	(37,494)	**(6,459)**	(10,724)	**(15,675)**	(18,783)	**(53,006)**	(67,001)
Reversal of/(provision for) impairment of receivables, net	**768**	(2,114)	**21**	–	**–**	–	**789**	(2,114)
(Write-down)/reversal of write-down of inventories to net realisable value, net	**(8,820)**	(5,645)	**8,520**	2,040	**–**	–	**(300)**	(3,605)
Additions to non-current assets	**14,110**	11,694	**13,066**	48,626	**940**	2,193	**28,116**	62,513

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

	PRC		US		UK		Canada		Other countries		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**264,527**	602,522	**529,992**	700,909	**533,731**	566,499	**228,646**	207,940	**365,810**	175,785	**1,922,706**	2,253,655

Included in revenue derived from the PRC was HK$212,335,000 (2016: HK$289,275,000) which was generated in Hong Kong.

For the year ended 31 December 2017, revenue from three (2016: two) customers in the garment manufacturing segment each accounted for more than 10% of the Group's total revenue and they represented approximately 18%, 15% and 11% (2016: 17% and 16%) of the total revenue respectively.

2. **Segment Information (Continued)**

	PRC		**Luxembourg**		**Thailand**		**Other countries**		**Total**	
	As at 31 December 2017	As at 31 December 2016	**As at 31 December 2017**	As at 31 December 2016	**As at 31 December 2017**	As at 31 December 2016	**As at 31 December 2017**	As at 31 December 2016	**As at 31 December 2017**	As at 31 December 2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Non-current assets *(Note (ii))*	**368,075**	379,749	**183,378**	160,275	**70,110**	62,571	**62,211**	60,753	**683,774**	663,348

Included in non-current assets located in the PRC was HK$9,928,000 (2016: HK$11,243,000) which was related to assets located in Hong Kong.

Notes:

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

(ii) Non-current assets exclude deferred tax assets and defined benefit plan assets.

3. **Revenue**

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

Revenue represents the invoiced value of products sold, excludes value added tax or other sales taxes and is after deduction of any trade discounts.

4. **Other Income and Other Gains**

	2017	2016
	HK$'000	*HK$'000*
Consultancy and transitional services fee income from JW PRC Co *(Note (i))*	**27,603**	70,685
Transitional service fee income from Nautica licensor *(Note (ii))*	**–**	23,265
Government subsidies *(Note (iii))*	**3,171**	4,434
Net loss on disposals of property, plant and equipment	**(1,908)**	(15,319)
Sundry income	**2,124**	4,712
	30,990	87,777

Notes:

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

(ii) In July 2016, certain subsidiaries of the Group entered into agreements with relevant Nautica licensor whereby the Group agreed to provide full cooperation to the Nautica licensor in enabling a business transition in relation to the contractual expiry of the Group's license for the distribution of Nautica branded products on 31 December 2016. In consideration of the Group's agreement to provide cooperation for the business transition, the Nautica licensor agreed to pay US$3 million (equivalent to HK$23,265,000) to the Group.

(iii) The Group received HK$3,171,000 (2016: HK$4,434,000) government subsidies from the PRC government during the year ended 31 December 2017. There were no unfulfilled conditions and other contingencies attached to the receipts of these government subsidies. There is no assurance that the Group will continue to receive such government subsidies in the future.

5. Loss from Operations

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

	2017	2016
	HK$'000	*HK$'000*
Amortisation of leasehold land and land use rights	**3,504**	3,576
Amortisation of intangible assets	**6,172**	23,090
Depreciation on property, plant and equipment	**53,006**	67,001
(Reversal of)/provision for impairment of receivables, net	**(789)**	2,114
Cost of inventories	**1,500,872**	1,724,106
Employee benefit expenses	**640,147**	753,063
Minimum operating lease payments in respect of land and buildings	**33,381**	78,238
Contingent operating lease payments in respect of land and buildings	**554**	1,835
Net exchange (gain)/loss	**(3,475)**	3,269
Auditors' remuneration		
Audit services	**3,340**	2,974
Others	**735**	799

6. Finance Income/Finance Costs

	2017	2016
	HK$'000	*HK$'000*
Finance income		
Interest income from bank deposits	**4,339**	5,302
Imputed interest on long-term rental deposits	**118**	–
Imputed interest on other receivable from an entity in the PRC	**–**	1,915
	4,457	7,217
Finance costs		
Interest on bank borrowings	**2,826**	5,450
Imputed interest on license fees payable	**1,484**	492
	4,310	5,942

7. Income Tax Credit/(Expense)

	2017	2016
	HK$'000	*HK$'000*
Current income tax		
Hong Kong profits tax	**(337)**	(5,370)
Non-Hong Kong tax	**(2,352)**	(24,026)
Over-provisions of prior years	**358**	15,363
	(2,331)	(14,033)
Deferred tax	**4,537**	(10,651)
	2,206	(24,684)

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

8. Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

9. Loss Per Share

(a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to equity shareholders of the Company by the weighted average number of shares in issue for the year.

	2017	2016
	HK$'000	*HK$'000*
Loss attributable to equity shareholders of the Company	**(64,180)**	(84,091)
Weighted average number of ordinary shares in issue	**271,607,253**	271,607,253
Basic loss per share	**HK$(0.24)**	HK$(0.31)

(b) Diluted loss per share

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

During the years ended 31 December 2017 and 2016, the conversion of all potential ordinary shares outstanding would have an anti-dilutive effect on the loss per share. Hence, there was no dilutive effect on calculation of the diluted loss per share for the year ended 31 December 2017 and 2016.

10. Accounts Receivable and Bills Receivable

As of the end of the reporting period, the ageing of accounts receivable and bills receivable based on invoice date is as follows:

	2017	2016
	HK$'000	*HK$'000*
Less than 3 months	**259,220**	273,067
3 months to 6 months	**5,644**	5,384
Over 6 months	**1,764**	2,415
	266,628	280,866
Less: Provision for impairment	**(1,764)**	(2,415)
	264,864	278,451

The majority of accounts receivables are with customers having an appropriate credit history and are on open account. The Group grants its customers credit terms mainly ranging from 30 to 60 days. All of the accounts receivable and bills receivable are expected to be recovered within one year.

The carrying amounts of the accounts receivable and bills receivable approximate their fair values. The maximum exposure to credit risk is the fair value of the above receivables. The Group does not hold any collateral as security.

11. Accounts Payable and Bills Payable

As of the end of the reporting period, the ageing of accounts payable and bills payable based on invoice date is as follows:

	2017	2016
	HK$'000	*HK$'000*
Less than 3 months	**97,955**	80,382
3 months to 6 months	**2,669**	4,837
Over 6 months	**4,913**	2,910
	105,537	88,129

The majority of payment terms with suppliers are within 60 days. All of the accounts payable and bills payable are expected to be settled within one year or are on demand.

The carrying amounts of accounts payable and bills payable approximate their fair values.

12. Capital Commitments

The Group had no capital commitments as at 31 December 2017 and 2016.

In this Management Discussion and Analysis, we present the business review and a discussion on the financial performance of the Group for the year ended 31 December 2017.

Overview

For the year ended 31 December 2017, the Group recorded a loss attributable to shareholders of HK$64 million as compared with a loss of HK$84 million in 2016. The Group's 2017 performance continues to reflect the transitions of the Group's brands business and the challenging and competitive operating environment faced by our garment manufacturing business.

The Group continued our plan of investment in brands in 2017, with C.P. Company's strong growth in revenue and substantial reduction on operating loss. On the other hand, as mentioned in our 2016 annual report, the Group's 2017 top-line and performance continued to be impacted by the expiry of the Nautica distribution license at end of 2016, and a reducing consultancy fees income from Jack Wolfskin China business.

After acquisition by the Group in 2015, C.P. Company reported its first full year results in 2017 with improving sales growth driven by continued strength in wholesale business. With our own design and innovative new products, both C.P. Company's Spring/Summer 2017 and Fall/Winter 2017 revenue attained over 80% growth over last year of homologous seasons. Following the two seasons' strong growth, the momentum continues with Spring/Summer 2018 sales orders attained over 60% year on year growth. In terms of markets, Europe continues to be our largest market. Strong growth continues for key countries with well-established wholesale channels, especially for the United Kingdom (the "UK"), Italy and Korea. Benelux, Scandinavia and Russia are also developing rapidly. To better connect to our customers and expand into new markets, we have now in total four showrooms: Tokyo showroom opened in 2016, Milan main showroom and New York showroom opened in early 2017, and Shanghai showroom opened in early 2018. We also stepped up our marketing efforts by rolling out global marketing campaign "#EyesOnTheCity" in April 2017, starting from the UK and Italy with encouraging response. The program invites our customer community to take a picture of their C.P. Company goggle jacket and their city as background and share their personal distinctive urban perspective and experiences on social channels. In another marketing campaign, C.P. Company created specially designed cloaks in collaboration with the British band Gorillaz in their opening performance for a one-day festival extravaganza at Dreamland Margate, England in June 2017 with positive response from audiences.

Apart from C.P. Company, the Group continues to develop our two home-grown lifestyle brands – Engineered for Motion ("EFM"), our urban apparel NYC designer brand, and our French concept premium ladies' wear "Cissonne". EFM grew gradually with key customers in the United States of America (the "US") , including partnership with Saks Fifth Avenue. EFM's Fall/Winter 2017 had better sell through than previous seasons as retail price point was more accessible and after-sales services were more consumer-centric. Cissonne gradually expanded through direct retailing in China major cities with increasing sell-through and customer loyalty. The brand has now four stores in China, including stores in Shanghai Kerry Centre, Shanghai Zhenning Road, Beijing Sanlitun and Hangzhou MIXC Shopping City.

In 2016, the Group entered into a long-term license agreement with the owner of Italian brand "ACBC" for sourcing and distribution of their footwear products in China. The ACBC patented zipper shoe is supported by a team of fashion designers, industrial designers and engineers who work to create innovation and improve commuting and travelling experience. It allows users to customize, mix and match the shoe skins and soles to fit any occasion. During this year, the Group set up the sales and distribution organisation for ACBC and the first store of the brand was launched at Shanghai Grand Gateway in December 2017. Up to March 2018, another four brand experience stores were opened at Shanghai Joy City Shopping Mall, Shanghai Touch Mall, Beijing Cloud Nine Shopping Mall and Beijing Shijingshan Wanda Plaza.

On our garment manufacturing business, the challenges to physical stores and changing landscape of the fashion industry continue to affect our fashion brand customers and our business. In 2017, revenue from outerwear products was affected by the competitive market. We continue to maintain steady long-term relationship with our outerwear customers. We reduced our capacity for some dress up tailoring categories with challenging price and customers with high credit risk. During the year, we expanded our customer base with new customers in Europe. On production, we have outerwear products mainly manufactured in our China and Thailand factories while dress up business at competitive pricing produced at our lower cost production bases – Vietnam and Myanmar. We adjusted our capacity in response to the seasonality of outerwear production and reallocated some products from China factories to our lower cost Southeast Asian factories. We continued to apply and enhance our unique manufacturing system in our China factories where we operate a multi-level automation and specialization production system using special machines and skill modules. With quality enhancement and technical knowhow improvement, we were able to meet customers' stringent requirements on changes in product type and style, variations in quantity and complex products. All these measures help to control rising factory costs and price pressure from our customers.

Financial Highlights

	Note	**2017**	2016	Change
Operating results (HK$ million)				
Revenue		**1,923**	2,254	–15%
Gross profit		**422**	530	–20%
Loss before interest and tax		**(67)**	(63)	–6%
Loss attributable to equity shareholders		**(64)**	(84)	+24%
Segment results (HK$ million)				
Garment manufacturing segment results before tax		**19**	71	–73%
Garment manufacturing segment results after tax		**16**	60	–73%
Brands business segment results before tax		**(68)**	(80)	+15%
Brands business segment results after tax		**(68)**	(80)	+15%
Financial position (HK$ million)				
Current assets		**1,086**	1,200	–10%
Current liabilities		**412**	528	–22%
Cash and bank balances		**513**	523	–2%
Bank borrowings		**99**	199	–50%
Total equity		**1,293**	1,236	+5%
Cash flow and capital expenditure (HK$ million)				
Cash generated from operations		**107**	68	+57%
Capital expenditure				
Property, plant and equipment		**(28)**	(30)	–7%
Key ratios				
Gross profit margin		**21.9%**	23.5%	–1.6 pp
Operating loss margin		**(3.5%)**	(2.8%)	–0.7 pp
Net loss margin attributable to equity shareholders		**(3.3%)**	(3.7%)	+0.4 pp
Return on average equity (ROE)	1	**(5.1%)**	(6.4%)	+1.3 pp

Note:

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

Financial Review

For the year ended 31 December 2017, the Group recorded a loss attributable to equity shareholders of HK$64 million (2016: HK$84 million). In 2017, the Group's results were impacted by the drop of consultancy fee income from Jack Wolfskin Trading (Shanghai) Co., Ltd. ("JW PRC Co"), continued investment in brands business and lower profit from our garment manufacturing business.

Revenue

Total revenue of the Group for the year 2017 was HK$1,923 million (2016: HK$2,254 million), representing a decrease of 15% as compared with the last year.

Revenue from the brands business was HK$225 million as compared with HK$378 million in 2016. The 2016 revenue included HK$245 million sales of Nautica products, and there is no such revenue in 2017 after the contractual expiry of the Nautica distribution license. Revenue in this year mainly comprises full year sales revenue of C.P. Company, while in the last year the brand only contributed revenue from Fall/Winter 2016 in the second half year. In 2017, around 90% of C.P. Company's revenue were from wholesale of Europe, with the remaining from retail and e-commerce.

Revenue from the garment manufacturing segment was HK$1,698 million as compared with HK$1,876 million in 2016. Revenue from higher margin outerwear products for global premium fashion brand customers accounted for 74% (2016: 69%) of the segment revenue. Revenue of outerwear products dropped by 4% as compared with last year due to keen competition. In general, sales of outerwear products shifted our peak production season to the second and third quarters while sales income are skewed towards Fall/Winter seasons. Sales of dress up tailoring products mainly to national brand customers decreased by 22% in 2017 as we reduced our capacity for some categories with challenging price and customers with high credit risk.

Geographically, major markets of the Group are US and Canada, UK and the People's Republic of China (the "PRC"), which accounted for 39% (2016: 40%), 28% (2016: 25%) and 14% (2016: 27%) of the Group's total revenue respectively. The change in geographical sales proportion is mainly due to the expiry of the Nautica distribution license for China.

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

Gross Profit

During the year, the Group's overall gross profit recorded at HK$422 million (2016: HK$530 million), representing a gross profit margin of 21.9% (2016: 23.5%). The decrease in gross profit was mainly attributable to reduced revenue from both brands business and garment manufacturing business. Gross profit margin of brands business increased due to improved margin of C.P. Company along with business growth. Gross profit margin of the garment manufacturing business was slightly lower than the previous year as production efficiency was affected by increase in production of complex products, elevation of quality standard and competitive pricing. The Group's overall gross profit margin decreased due to the drop of higher margin brands business revenue.

Other Income and Other Gains

Other income and other gains mainly include consultancy and transitional services fees income from the Jack Wolfskin China business. As mentioned in the 2016 annual report, the Group receives consultancy fee income from JW PRC Co from 2015 to 2017 on a reducing scale. Because of the agreed lower calculation basis, the 2017 consultancy fee income from JW PRC Co was lower than 2016. In 2016, the Group also received transitional services fee from JW PRC Co.

Selling and Distribution Expenses

Selling and distribution expenses comprise mainly advertising and promotion, shop and royalty expenses of the brands business. Selling and distribution expenses decreased as compared to 2016 mainly due to the Nautica license expiry at end of 2016.

General and Administrative Expenses

General and administrative expenses dropped by 17% to HK$421 million as compared with HK$506 million in 2016 mainly due to scale down the business organization of Nautica upon the license expiry.

Income Tax Expenses

Income tax expenses for the year reduced mainly due to reversal of deferred tax liabilities on retained earnings, and lower profit under our garment manufacturing business.

Segment Results

In 2017, the segment loss of brands business reduced mainly due to improved results of C.P. Company, despite a reduction in consultancy fee income from JW PRC Co and continued development costs for the brands of ACBC, EFM and Cissonne.

Segment results for garment manufacturing business dropped as compared with 2016 mainly due to the reduced revenue and efficiency impact mentioned under gross profit section.

There were no material acquisitions or disposals of subsidiaries or associated companies during the year and up to the date of this announcement. No important events affecting the Group have occurred since 31 December 2017 and up to the date of this announcement.

Financial Resources and Liquidity

As at 31 December 2017, cash and bank balances amounted to HK$513 million (2016: HK$523 million) which mainly represented United States dollars (“US dollars”) and Renminbi bank deposits. Short-term bank borrowings of the Group amounted to HK$99 million as at 31 December 2017 (2016: HK$199 million). Such borrowings were denominated in US dollars and bearing interest at fixed rates. The Group maintained sufficient banking facilities and did not have any long-term bank borrowings as at 31 December 2017. As at 31 December 2017 and 2016, banking facilities extended to the Group were not secured with the Group’s assets. The gearing ratio of the Group is calculated as net borrowings divided by total capital. Net borrowings are calculated as total bank borrowings less cash and bank balances, while total capital comprised total equity plus net borrowings. The Group did not have net borrowings as at 31 December 2017 and 2016, and accordingly, no information on gearing ratio as at that dates is provided.

Cashflow from operations increased as compared with the previous year mainly due to improved cashflow from C.P. Company European business, more consultancy fees receipts from JW PRC Co as per payment schedule and cost savings.

Shareholders' equity at 31 December 2017 increased mainly due to the net effect of exchange difference on translating the financial statements of subsidiaries in the PRC, Europe and Thailand following the appreciation of their local currencies during 2017, changes in hedging reserve for forward contracts and the current year's loss attributable to equity shareholders.

Most of the Group's receipts and payments are denominated in US dollars, Hong Kong dollars, Renminbi, Pound Sterling and Euro. Management monitors the related foreign exchange risk exposure by entering into forward foreign exchange contracts. During the year ended 31 December 2017, the Group had forward foreign exchange contracts to hedge against the foreign exchange exposures arising from US dollars denominated processing income for factories in the PRC and Pound Sterling sales receipts of a European subsidiary. Foreign currency exchange rates are volatile. Management evaluates the Group's foreign currency exposure on a continuing basis and takes actions to minimize the Group's exposure whenever necessary.

Contingent Liabilities and Capital Commitments

Other than disclosed in the financial statements, there were no material capital commitments or contingent liabilities as at 31 December 2017.

There were no material capital commitments or contingent liabilities as at 31 December 2017 which would require a substantial use of the Group's present cash resources or external funding.

Human Resources

The Group had about 9,560 employees as at 31 December 2017 (2016: 10,680). Fair and competitive remuneration packages and benefits are offered to employees. Those employees with outstanding performance were also awarded discretionary bonuses and share options.

Outlook

The Group dedicates to grow brands business and at the same time strengthen garment manufacturing business for creation of synergy between both.

Since acquisition of C.P. Company, we have seen encouraging double digit sales growth every season and strong potential. The heritage of C.P. Company in proprietary fabrics, garment dye and goggle jackets are already powerful icons in attracting customers. We shall continue to strengthen the product range, innovation and design and widen our collections to customers. We will continue to increase efficiency in order fulfillment and speed-to-market. Through the best wholesale partners, we grow existing key wholesale markets and further expand new growth markets in Europe as well as enter into the North America and Asian markets including China. We also plan to grow by directly retail to customer through opening retail stores and e-commerce. Based on latest orders received from our Fall/Winter 2018 sales campaign, we continue to enjoy a high double-digit revenue growth from wholesale. Our consumer-centric marketing initiatives help to connect our consumer community and promote the brand richness in terms of design, materials and heritage. Through our global marketing campaign "#EyesOnTheCity", we give space to personalities who becomes protagonist of the C.P. Company lifestyle. We will further develop and communicate the storytelling around them and the C.P Company products they are wearing. In 2018, C.P. Company will have a collaboration with Adidas, an international sports brand, to promote C.P. Company brand awareness and image.

The revenue of EFM will grow gradually with key customers in the US. EFM aims to further increase customer acceptance and sell-through. Cissonne will continue to grow direct retail in China sensibly by focusing on the excellence in product, increasing sell-through and reaching out to the market through concept stores and celebrity seeding.

For ACBC, in 2018 we shall improve comfort and fit, customer in-store experience and enhance brand awareness and acceptance. We plan to gradually increase presence through brand experience centres and pop-up stores in key cities in China.

Our garment manufacturing business will continue to be challenging. We shall improve profitability of the business by maintain high quality standard, uplift technical knowhow and product innovation while improving operating costs. We will initiate our unique manufacturing system with our Southeast Asian factories to guarantee high productivity and quality consistency. With the support of "Trinovation Lab", our luxury sportswear R&D center for continuing product innovation on material, construction and design, we develop innovative value-added services to meet fashion trends and customers' requirements. To expand our services and business, we will expand supply chain for middle market ladies tailoring garments with vendors from competitive cost locations. This will not only serve as an additional value driver to our existing customers, it will also attract new business from existing and new customers. To combat cost increase in our factories, we continue to drive efficiency and tighten cost control for all our factories. For price competitive outerwear products, we continue to develop our lower cost Vietnam factory to manufacture those products with good response from our customers. We will allocate more price competitive outerwear orders to the factory in the coming two to three years.

While C.P. Company is well positioned for the next level of growth, it takes time for our other developing brands to gain acceptance by market and grow in revenue. We are confident that our garment manufacturing business will maintain stable performance and continue to generate steady strong cash inflow to support the Group's business. We are cautious about our 2018 financial performance and expect the Group will continue to record a loss due to time and investments required in brands. However, with our plans and measures, we are confident that we are on the right track for the long-term sustainability and success of the Group. The Group will continue to look for new business opportunities.

Principal Risks and Uncertainties

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

Principal risks and uncertainties affecting the Group are outlined below:

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

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

Nature of Risk	Responses
External Risks	
Macroeconomic Environment	
• The principal business activities of the Group are garment manufacturing and brands business with worldwide customers located in Europe, North America and Asia. The industries in which the Group operates are affected by the economic conditions and consumer spending behavior in these locations. Change in economic condition may reduce the demand of our products.	• Geographic spread of customers and multiple sales channels will mitigate localized economic risks. • Annual budget is approved by the Board. • Quarterly financial performance and forecast are reported to the Board. • Internal review between Business Unit Heads and Corporate Finance Team on the monthly financial performance. • Monthly rolling forecast review where annual budget will be compared with actual and forecast figures. Variance analysis to account for the difference between budget and actual figures. • Monthly meeting to review business, sales and marketing performance.
Business Partner's Change in Business Strategy	
• Garment manufacturing customer's strategy change in sourcing locations and competitive pricing may cause the Group to lose orders and revenue.	• Our factories are located in different countries and serve a wide range of products with different price levels.
• Change in market entry and licensing strategy by brand owners of our licensed brands has caused the Group to lose distribution rights in licensing branded products.	• The Group's ongoing strategy in developing brands business will help to mitigate the impact of loss of revenue in distributing branded products.
Regulatory risks	
• The Group is increasingly subject to a broad and changing legal, tax, and regulatory requirements in the various jurisdictions the Group operates. New and changing policies or applications by governments may pose a risk to the Group's returns and/or subject the Group to legal challenge.	• The Group continually monitors changes in local government policies and legislation. • Ongoing long term strategic reviews with assessment of market and country concentration.

Nature of Risk	Responses
Operational Risks	
Increased Cost • Increased cost will impact the profitability of our business.	• For our brands business, we have our own sourcing team with diversified supply network to handle product sourcing. • For garment manufacturing business, our Group effectively earns cut and make profit. Increased cost in fabric material has little impact to the Group. • Diversification of factories and supply chain in various countries in Asia and production process improvements will help to offset the rise in wages and staff costs.
Environment & Social Responsibility • Failure to comply with applicable laws, regulations or standards related to environment and social responsibility may adversely impact our employees, lose production time and attract negative media attention and regulators' interest.	• Manage internal controls over our significant environmental aspects with aim to enhance the efficiency of resource use and reduce environmental emissions in our business operation. • Apply equal opportunities principles in all employment policies.
IT Risks • When there is IT system outage or cyberattack, all the IT systems may come to a halt causing not only business interruption but also loss of confidential information such as personal data of employees or consumers of the e-shop.	• Appropriate controls and technology have been deployed to mitigate the risk of system outages and cyberattack. They include preventive system maintenance, regular security checks, installation of fire-wall and anti-virus software, multi-level security, uninterrupted power supply, daily off-site backup of key application systems and data, regular disaster recovery drill, assignment of job-related access rights, well-defined access controls system. • Although E-shop is run on a third-party platform which is operated by an on-line distributor, the E-Commerce service agreement specifies that the on-line distributor should maintain and update all the technological elements necessary to guarantee the proper functioning of the e-shop, the safety of the systems underlying the e-shop and the protection of the personal data according to applicable laws and market practices.

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

Relationship with Business Partners and Stakeholders

Relationship with Customers

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

Relationship with Suppliers

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

Relationship with Employees

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

Compliance with Relevant Laws and Regulations

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

Environmental and Social Policies

The Group is committed to creating a sustainable and greener environment and continues to explore ways to reduce carbon emission, conserve energy and reduce wastage. We have implemented various environmental and sustainability initiatives in our factories. Being a responsible social citizen, the Group has been committed to supporting various charitable events, including making donations in relation to education, disaster reliefs and for the less-privileged, in particular supporting local society needs where our group companies locate for the long term. Since 2015, the Company has been participating in the Caring Company Scheme and we collaborated with The Salvation Army on various charitable activities, such as fund raising and volunteer works. Our "Environmental, Social and Governance Report", which discusses in detail our initiatives on environmental and social aspects and their performance, is set out in the Company's annual report for the year ended 31 December 2017 (the "2017 Annual Report").

CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2017, the Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviation from code provisions A.2.1 and A.5.

Considered reasons for the deviation from code provisions A.2.1 and A.5 were set out in the Company's last published interim report for the six months ended 30 June 2017. Further information of the Company's corporate governance practices will be set out in the Corporate Governance Report of the Company's 2017 Annual Report, which will be available for publication as soon as practicable.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

PROPOSED FINAL DIVIDEND

No interim dividend was paid for the six months ended 30 June 2017 (2016: Nil).

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 19 June 2018 to Monday, 25 June 2018, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on Monday, 25 June 2018 (the "2018 AGM"), all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 18 June 2018.

ANNUAL GENERAL MEETING

The 2018 AGM will be held at Room 5A, 5th Floor, 66-72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong at 10:00 a.m. on Monday, 25 June 2018. The notice of 2018 AGM will be published and despatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other 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 Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

AUDIT COMMITTEE

The Audit Committee has reviewed the consolidated financial statements and the annual report of the Group for the year ended 31 December 2017 with the management of the Group and recommended them to the Board for approval.

On behalf of the Board
WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Hong Kong, 26 March 2018

As at the date of this announcement, the Board comprises one Executive Director, Mr. WANG Kin Chung, Peter; three Non-Executive Directors, namely Ms. WANG KOO Yik Chun, Ms. MAK WANG Wing Yee, Winnie and Dr. WANG Shui Chung, Patrick; and three Independent Non-Executive Directors, namely Mr. LO Kai Yiu, Anthony, Mr. James Christopher KRALIK and Mr. Peter TAN.