BEST PACIFIC

Best Pacific International Holdings Limited

超 盈 國 際 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2111)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

HIGHLIGHTS

- The Group's revenue for the year ended 31 December 2017 amounted to approximately HK$2.79 billion, representing an increase of approximately 13.2% when compared to the year ended 31 December 2016.

  Sales revenue of elastic fabric as sportswear materials achieved a year-on-year growth of approximately 74.9%.

- The Group's gross profit for the year ended 31 December 2017 amounted to approximately HK$772.7 million, representing a decrease of approximately 6.7% when compared to the year ended 31 December 2016. Gross profit margin decreased by approximately 5.9 percentage points to approximately 27.6%, as compared to the year ended 31 December 2016.

- Net profit for the year ended 31 December 2017 amounted to approximately HK$303.6 million, representing a decrease of approximately 33.5% as compared to approximately HK$456.3 million for the year ended 31 December 2016. The Group recorded a lower net profit margin of approximately 10.9% for the year ended 31 December 2017, representing a decrease of approximately 7.6 percentage points, as compared to approximately 18.5% for the year ended 31 December 2016.

- Basic earnings per share was approximately HK29.45 cents for the year ended 31 December 2017, representing a decrease of approximately 33.6% from approximately HK44.37 cents for the year ended 31 December 2016.

- Proposed to declare a final dividend of HK5.9 cents per share in respect of the year ended 31 December 2017 (2016: HK9.5 cents).

The board of Directors (the "**Board**") of Best Pacific International Holdings Limited (the "**Company**" or "**Best Pacific**" or "**We**") announces the consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2017, together with the comparative figures for the year ended 31 December 2016, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017** *HK$'000*	2016 *HK$'000*
Revenue	*3*	**2,794,811**	2,469,106
Cost of sales		**(2,022,139)**	(1,641,128)
Gross profit		**772,672**	827,978
Other income		**50,657**	44,935
Other gains and losses		**(14,351)**	24,725
Selling and distribution expenses		**(149,072)**	(120,584)
Administrative expenses		**(183,990)**	(162,681)
Research and development costs		**(83,999)**	(55,361)
Share of result of a joint venture		**3,195**	5,715
Finance costs		**(35,219)**	(28,660)
Profit before taxation	*5*	**359,893**	536,067
Income tax expense	*6*	**(56,258)**	(79,816)
Profit for the year		**303,635**	456,251
Profit (loss) for the year attributable to			
– Owners of the Company		**304,219**	456,251
– Non-controlling interests		**(584)**	–
		303,635	456,251
Earnings per share	*8*		
– Basic (HK cents)		**29.45**	44.37
– Diluted (HK cents)		**29.29**	44.00

	2017	2016
	HK$'000	*HK$'000*
Profit for the year	**303,635**	456,251
Other comprehensive income (expense):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**181,926**	(150,236)
Share of translation reserve of a joint venture	**906**	(590)
Fair value gain on available-for-sale financial assets	**515**	214
Reclassified to profit and loss on disposal of an available-for-sales financial asset	**(250)**	–
Other comprehensive income (expense) for the year	**183,097**	(150,612)
Total comprehensive income for the year	**486,732**	305,639
Total comprehensive income (expense) for the year attributable to		
– Owners of the Company	**487,316**	305,639
– Non-controlling interests	**(584)**	–
	486,732	305,639

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		**2,277,003**	1,324,704
Prepaid lease payments		**103,021**	80,521
Interest in a joint venture		**32,413**	15,300
Deposits		**104,838**	90,523
Available-for-sale financial assets		**27,512**	28,434
Deferred tax assets		**774**	867
		2,545,561	1,540,349
Current assets			
Inventories		**694,457**	504,635
Prepaid lease payments		**2,593**	894
Trade and bills receivables	*9*	**648,359**	561,898
Other receivables, deposits and prepayments		**80,537**	67,074
Amount due from a related company		**366**	698
Derivative financial instrument		**–**	12,811
Pledged bank deposits		**54,623**	61,610
Short term bank deposits		**11,687**	13,362
Bank balances and cash		**176,715**	424,540
		1,669,337	1,647,522
Current liabilities			
Trade payables	*10*	**181,616**	122,658
Bills payables	*10*	**285,175**	314,013
Other payables and accrued charges		**183,344**	200,981
Bank borrowings	*11*	**262,486**	120,707
Obligations under finance leases		**629**	5,302
Tax payable		**11,740**	36,592
		924,990	800,253
Net current assets		**744,347**	847,269
Total assets less current liabilities		**3,289,908**	2,387,618

	Notes	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Bank borrowings	*11*	**977,776**	472,795
Obligations under finance leases		**–**	629
Derivative financial instrument		**4,426**	4,780
Deferred income		**7,044**	7,649
		989,246	485,853
Net assets		**2,300,662**	1,901,765
Capital and reserves			
Share capital	*12*	**10,365**	10,288
Reserves		**2,290,881**	1,891,477
Equity attributable to owners of the Company		**2,301,246**	1,901,765
Non-controlling interests		**(584)**	–
Total equity		**2,300,662**	1,901,765

NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME AND STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2017

1. GENERAL INFORMATION

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 14 June 2013. Its immediate and ultimate holding company is Grandview Capital Investment Limited, which is incorporated in the British Virgin Islands and is wholly owned by Mr. Lu Yuguang, who is also the Chairman and executive director of the Company. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 23 May 2014.

The functional currency of the Company is Hong Kong dollar ("**HK$**"), which is the same as the presentation currency of the consolidated financial statements.

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12	*As part of the Annual Improvements to HKFRSs 2014-2016 Cycle*

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years, but resulted in additional disclosures as set out in the consolidated financial statements as described below.

Amendments to HKAS 7 Disclosure Initiative

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

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

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

New and revised HKFRSs in issue but not yet effective

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

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

[1] Effective for annual periods beginning on or after 1 January 2018.

[2] Effective for annual periods beginning on or after 1 January 2019.

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

[4] Effective for annual periods beginning on or after 1 January 2021.

HKFRS 9 "Financial Instruments"

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

Key requirements of HKFRS 9 which are relevant to the Group are described below:

- All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income ("**FVTOCI**"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows and discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification. Currently, the Group revises the effective interest rates for non-substantial modification of financial liabilities with no gain/loss being recognised in profit or loss. The directors of the Company anticipate that, upon the initial adoption of HKFRS 9, the non-substantial modifications of financial liabilities will not have significant impact to the opening retained profits of the Group.

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

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

Classification and measurement:

- Financial assets classified as loan and receivables carried at amortised cost: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9.

- Unlisted investment in a partnership classified as available-for-sale financial assets carried at cost less impairment: this investment qualified for designation as measured at FVTOCI under HKFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investment revaluation reserve. Upon initial application of HKFRS 9, the differences between the carrying amount at cost less impairment and fair value (net of deferred tax impact) relating to this investment would be adjusted to investments revaluation reserve as at 1 January 2018.

Impairment:

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

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and bills receivables and other receivables and deposits. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at 1 January 2018.

HKFRS 15 "Revenue from Contracts with Customers"

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

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

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

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

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting period.

HKFRS 16 "Leases"

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of approximately HK$25,381,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16. Upon the application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16.

In addition, the Group currently considers refundable rental deposits paid of HK$2,520,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

Other than those disclosed above, the directors of the Company anticipate that the application of other amendments to HKFRSs and interpretations have no material impact on the results and financial position of the Group.

3. REVENUE

The Group's revenue is derived from manufacturing and trading of elastic fabric, lace and elastic webbing in Hong Kong, the People's Republic of China (the "**PRC**") and the Socialist Republic of Vietnam ("**Vietnam**"), net of discounts and sales related taxes.

4. SEGMENT INFORMATION

The financial information reported to executive directors of the Company, being the chief operating decision makers ("**CODM**"), for the purpose of assessment of segment performance and resources allocation focuses on types of goods delivered.

The Group's operating and reportable segments under HKFRS 8 are as follows:

- Manufacturing and trading of elastic fabric and lace

  This segment derives its revenue from manufacturing and trading of elastic fabric and lace made from synthetic fibres that are commonly used in high-end knitted lingerie, apparel and sportswear products.

- Manufacturing and trading of elastic webbing

  This segment derives its revenue from manufacturing and trading of elastic webbing made from synthetic fibres that are commonly used as shoulder straps, lingerie trims and waistbands.

Segment revenue and results

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

For the year ended 31 December 2017

	Manufacturing and trading of elastic fabric and lace	**Manufacturing and trading of elastic webbing**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Segment revenue from external customers	**1,853,249**	**941,562**	**2,794,811**
Segment profits	**248,296**	**187,341**	**435,637**
Unallocated other income			**7,408**
Unallocated other gains and losses			**(13,438)**
Unallocated corporate expenses			**(37,690)**
Share of result of a joint venture			**3,195**
Finance costs			**(35,219)**
Profit before taxation			**359,893**

For the year ended 31 December 2016

	Manufacturing and trading of elastic fabric and lace	Manufacturing and trading of elastic webbing	Total
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue from external customers	1,636,597	832,509	2,469,106
Segment profits	363,241	199,823	563,064
Unallocated other income			21,986
Unallocated other gains and losses			24,725
Unallocated corporate expenses			(50,763)
Share of result of a joint venture			5,715
Finance costs			(28,660)
Profit before taxation			536,067

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment profit represents the results of each segment without allocation of corporate items including mainly bank interest income, dividend income from an available-for-sale financial asset, change in fair value in derivative financial instruments, net foreign exchange (loss) gain, share of result of a joint venture, loss on disposal of property, plant and equipment for corporate use, gain on disposal of an available-for-sale financial asset, corporate expenses and finance costs. Corporate expenses include directors' remuneration paid or payable by the Group, equity-settled share-based payments and certain administrative expenses for corporate function. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

As at 31 December 2017

	Manufacturing and trading of elastic fabric and lace *HK$'000*	Manufacturing and trading of elastic webbing *HK$'000*	Total *HK$'000*
ASSETS			
Segment assets	**3,079,139**	**783,098**	**3,862,237**
Property, plant and equipment			**3,817**
Interest in a joint venture			**32,413**
Available-for-sale financial assets			**27,512**
Deferred tax assets			**774**
Other receivables, deposits and prepayments			**45,120**
Pledged bank deposits			**54,623**
Short term bank deposits			**11,687**
Bank balances and cash			**176,715**
Total assets			**4,214,898**
LIABILITIES			
Segment liabilities	**424,754**	**225,507**	**650,261**
Other payables and accrued charges			**6,918**
Bank borrowings			**1,240,262**
Obligations under finance leases			**629**
Tax payable			**11,740**
Derivative financial instrument			**4,426**
Total liabilities			**1,914,236**

As at 31 December 2016

	Manufacturing and trading of elastic fabric and lace *HK$'000*	Manufacturing and trading of elastic webbing *HK$'000*	Total *HK$'000*
ASSETS			
Segment assets	1,979,458	517,937	2,497,395
Property, plant and equipment			52,088
Prepaid lease payments			43,978
Interest in a joint venture			15,300
Available-for-sale financial assets			28,434
Deferred tax assets			867
Other receivables, deposits and prepayments			37,486
Derivative financial instrument			12,811
Pledged bank deposits			61,610
Short term bank deposits			13,362
Bank balances and cash			424,540
Total assets			3,187,871
LIABILITIES			
Segment liabilities	446,825	193,562	640,387
Other payables and accrued charges			4,914
Bank borrowings			593,502
Obligations under finance leases			5,931
Tax payable			36,592
Derivative financial instrument			4,780
Total liabilities			1,286,106

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating and reportable segments, other than property, plant and equipment and prepaid lease payments for corporate use (including the prepaid lease payments and the property and plant under construction in Vietnam as at 31 December 2016 which were subsequently allocated to the respective segments upon the completion of the construction during the year ended 31 December 2017), interest in a joint venture, available-for-sale financial assets, deferred tax assets, derivative financial instrument, pledged bank deposits, short term bank deposits and bank balances and cash and certain corporate assets.

- all liabilities are allocated to operating and reportable segments, other than bank borrowings, obligations under finance leases, tax payable, derivative financial instrument and certain corporate liabilities.

Other segment information

For the year ended 31 December 2017

	Manufacturing and trading of elastic fabric and lace *HK$'000*	**Manufacturing and trading of elastic webbing** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
Amounts included in the measure of segment profit or segment assets:				
Additions of property, plant and equipment	**777,358**	**215,325**	**5**	**992,688**
Additions of prepaid leased payments	**14,258**	**9,826**	**–**	**24,084**
Depreciation of property, plant and equipment	**116,727**	**35,821**	**488**	**153,036**
Amortisation of prepaid lease payments	**1,867**	**628**	**–**	**2,495**

For the year ended 31 December 2016

	Manufacturing and trading of elastic fabric and lace *HK$'000*	Manufacturing and trading of elastic webbing *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Amounts included in the measure of segment profit or segment assets:				
Additions of property, plant and equipment	410,154	36,000	48,470	494,624
Additions of prepaid leased payments	–	–	43,978	43,978
Depreciation of property, plant and equipment	95,146	26,576	488	122,210
Amortisation of prepaid lease payments	894	–	–	894
Reversal of allowance for obsolete inventories	(6,923)	–	–	(6,923)

Other than the segment information disclosed above, there was no other information reviewed by the CODM for both years.

Geographical information

The Group's operations are located in the PRC, Hong Kong and Vietnam. The Group's revenue from external customers based on the location of the customers are detailed below:

	Year ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Hong Kong	**946,480**	879,865
The PRC	**687,977**	671,739
Sri Lanka	**416,741**	470,411
Vietnam	**125,268**	50,444
Thailand	**108,786**	40,317
Europe and the United States of America	**96,018**	88,821
Indonesia	**77,240**	60,755
Bangladesh	**57,949**	31,501
India	**57,784**	44,170
Others	**220,568**	131,083
	2,794,811	2,469,106

Non-current assets (excluding financial assets and deferred tax assets) by geographical location of assets are detailed below:

	As at 31 December	
	2017	2016
	HK$'000	*HK$'000*
The PRC	**1,933,706**	1,371,608
Hong Kong	**8,751**	10,484
Vietnam	**567,826**	121,964
	2,510,283	1,504,056

Information about major customers

Revenues from customers contributing over 10% of the total revenue of the Group for the years ended 31 December 2017 and 2016 are as follows:

	Year ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Revenue from manufacturing and trading of elastic fabric and lace		
– customer A	**265,659**	210,601
– customer B	**243,069**	268,881
Revenue from manufacturing and trading of elastic webbing		
– customer A	**96,926**	106,778
– customer B	**61,624**	48,399

5. PROFIT BEFORE TAXATION

	2017	2016
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Auditor's remuneration	**2,172**	2,102
Staff costs		
Directors' remuneration	**14,277**	33,467
Other staff costs		
– salaries and other benefits	**491,265**	393,134
– contributions to retirement benefits schemes	**43,498**	32,573
– equity-settled share-based payments	**1,068**	3,775
	550,108	462,949
Depreciation of property, plant and equipment	**153,036**	122,210
Depreciation capitalised in inventories	**(116,128)**	(96,505)
	36,908	25,705
Amortisation of prepaid lease payments	**2,495**	894
Minimum lease payments in respect of rented premises	**23,247**	18,251
Cost of inventories recognised as an expense	**2,022,139**	1,641,128
Including: reversal of allowance for obsolete inventories*	**–**	(6,923)

* The reversal of allowance for obsolete inventories was due to sales of obsolete inventories during the year of which allowance had been made in previous years.

6. INCOME TAX EXPENSE

	2017	2016
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**26,576**	37,112
The PRC Enterprise Income Tax ("**EIT**")	**32,045**	45,701
Under(over)provision in prior years:		
Hong Kong Profits Tax	**669**	–
The PRC EIT	**(3,182)**	(4,947)
	56,108	77,866
Deferred taxation	**150**	1,950
	56,258	79,816

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25% for both years, unless there is any preferential tax treatment applicable.

Dongguan Best Pacific Textile Company Limited ("**Dongguan BPT**"), a subsidiary of the Company, has obtained the qualification as a high and new technology enterprise since 2010, which has been renewed for an additional three years from the financial year ended 31 December 2016. Hence, Dongguan BPT is subject to the preferential tax treatment and the applicable tax rate for both years was 15%. During the year ended 31 December 2016, Dongguan New Horizon Elastic Fabric Company Limited ("**Dongguan NHE**"), a subsidiary of the Company, was also qualified as a high and new technology enterprise for three years from the financial year ended 31 December 2016. Dongguan NHE is therefore also subject to the preferential tax treatment and the applicable tax rate for both years was 15%.

Pursuant to the relevant Vietnam Enterprises Income Tax rules and regulations, the applicable tax rates for the subsidiary operating in Vietnam is 20%. The subsidiary in Vietnam is eligible for tax holidays for two financial years since the first financial year of taxable profit and tax concession at a tax rate of 10% for the following four financial years. No provision for Vietnam Enterprises Income Tax has been made as the subsidiary in Vietnam has no assessable profit for both years.

Taxation arising in any other jurisdiction is calculated at the rate prevailing in the relevant jurisdiction.

7. DIVIDENDS

	2017	2016
	HK$'000	*HK$'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2017 Interim dividend – nil (2016: 2016 interim dividend HK7.3 cents) per share	**–**	75,072
2016 Final dividend – HK9.5 cents (2016: 2015 final dividend HK8 cents) per share	**97,845**	81,829
	97,845	156,901

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2017 of HK5.9 cents per ordinary share (approximately HK$61.2 million in aggregate) has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

8. EARNINGS PER SHARE

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

	2017	2016
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company) (HK$'000)	**304,219**	456,251
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,032,867,679**	1,028,336,137
Effect of dilutive potential ordinary shares: Share options issued by the Company	**5,712,137**	8,481,488
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,038,579,816**	1,036,817,625

9. TRADE AND BILLS RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**640,302**	557,031
Less: Allowance for bad and doubtful debts	**(1,213)**	(1,133)
Total trade receivables	**639,089**	555,898
Bills receivables	**9,270**	6,000
	648,359	561,898

Before accepting any new customers, the Group assesses the potential customer's credit quality by evaluating their historical credit records and defines credit limits for each customer. Recoverability and credit limit of the existing customers are reviewed by the Group regularly.

Trade receivables from third parties mainly represent receivables from customers in relation to the sales of elastic fabric, elastic webbing and lace. The credit period granted to the customers ranges from 30 to 90 days from the date of issuance of a monthly statement for sales delivered in that month.

The following is an aged analysis of trade receivables net of allowance for bad and doubtful debts presented based on the date of issuance of monthly statements at the end of each reporting period and aged analysis of bills receivables presented based on the date of issuance of the bills at the end of each reporting period.

	2017	2016
	HK$'000	*HK$'000*
Trade receivables		
0 – 90 days	**563,614**	493,297
91 – 180 days	**51,330**	42,792
Over 180 days	**24,145**	19,809
	639,089	555,898
Bills receivables		
0 – 90 days	**9,270**	5,887
91 – 180 days	**–**	113
	9,270	6,000
	648,359	561,898

10. TRADE AND BILLS PAYABLES

Trade payables

The credit period granted by the Group's creditors ranges from approximately 1 month to 3 months. The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting period:

	2017	2016
	HK$'000	*HK$'000*
0 – 90 days	**156,373**	118,727
Over 90 days	**25,243**	3,931
	181,616	122,658

Bills payables

The bills payables are secured by pledged bank deposits. The following is an aged analysis of bills payables presented based on the date of issuance of the bills at the end of each reporting period:

	2017	2016
	HK$'000	*HK$'000*
0 – 90 days	**195,430**	236,383
91 – 180 days	**89,745**	77,630
	285,175	314,013

11. BANK BORROWINGS

	2017	2016
	HK$'000	*HK$'000*
Unsecured syndicated loan	**965,257**	585,693
Unsecured bank borrowings	**275,005**	7,809
	1,240,262	593,502
Carrying amount repayable*:		
Within one year	**262,291**	117,587
More than one year, but not exceeding two years	**188,504**	3,120
More than two years, but not more than five years	**789,467**	472,795
	1,240,262	593,502
Less: Amounts due within one year or contain a repayment on demand clause shown under current liabilities	**(262,486)**	(120,707)
Amounts shown under non-current liabilities	**977,776**	472,795
Carrying amount of bank borrowings that are repayable within one year and contain a repayment on demand clause	**274,810**	4,689
Carrying amount of bank borrowings that are repayable more than one year but contain a repayment on demand clause	**195**	3,120
	275,005	7,809

* The amounts due are based on scheduled repayment dates set out in the loan agreements and included the unamortised portion of the prepaid transaction cost in relation to the unsecured syndicated loan.

During the year ended 31 December 2016, the Group entered into a facility agreement for an unsecured syndicated loan ("**2016 Syndicated Loan**"), which is to be repayable by installments from 1 February 2017 to 1 February 2019 and with an interest rate at Hong Kong Interbank Offered Rate ("**HIBOR**") plus 2.6% per annum. During the year ended 31 December 2017, the Group further entered into a new facility agreement for an unsecured syndicated loan ("**2017 Syndicated Loan**"), which is to be repayable by installments, from 13 May 2019 to 13 May 2021 and with an interest rate at HIBOR plus 2.2% for HK$ loan tranche and London Interbank Offered Rate ("**LIBOR**") plus 2.2% for United States Dollars ("**US$**") loan tranche. Certain proceeds from the 2017 Syndicated Loan was used to fully repay the 2016 Syndicated Loan. The 2016 Syndicated Loan and 2017 Syndicated Loan are guaranteed by the Company.

The unsecured bank borrowings were guaranteed by group companies as at 31 December 2017 and 2016.

The Group has floating-rate borrowing which carry interest at HIBOR plus 1.75% to 3.50% (2016: HIBOR plus 1.75% to 3.50%) per annum.

12. SHARE CAPITAL

The detailed movements of the Company's share capital is set out below.

	Number of shares	**Amount**	
		HK$	*HK$'000*
Ordinary shares of HK$0.01 each			
Authorised:			
At 1 January 2016 and 31 December 2016 and 2017	50,000,000,000	500,000,000	500,000
Issued and fully paid:			
At 1 January 2016	1,021,276,000	10,212,760	10,213
Issue of shares upon exercise of share options *(Note a)*	7,505,000	75,050	75
At 31 December 2016	1,028,781,000	10,287,810	10,288
Issue of shares upon exercise of share options *(Note b)*	7,727,000	77,270	77
At 31 December 2017	1,036,508,000	10,365,080	10,365

All shares issued rank pari passu with other existing shares in all aspects.

Notes:

(a) On 14 January 2016, 13 and 28 April 2016, 18, 23, 24 and 27 May 2016, 1, 2, 8, 21 and 28 June 2016, 5, 6 and 15 July 2016 and 28 and 29 December 2016, the Company issued 600,000, 66,000, 88,000, 134,000, 456,000, 240,000, 1,000,000, 900,000, 1,550,000, 110,000, 149,000, 282,000, 302,000, 962,000, 265,000, 201,000 and 200,000 shares respectively upon the exercise of share options by three Directors and certain employees.

(b) On 12 and 13 January 2017, 30 March 2017, 22, 24 and 31 May 2017, 9, 15 and 29 June 2017, 14, 17, 19, 20, 21, 26 and 28 July 2017 and 14 and 18 September 2017, the Company issued 132,000, 215,000, 150,000, 650,000, 30,000, 1,010,000, 950,000, 400,000, 110,000, 745,000, 1,755,000, 120,000, 210,000, 280,000, 220,000, 480,000, 120,000, and 150,000 shares respectively upon the exercise of share options by a Director and certain employees.

CHAIRMAN'S STATEMENT

On behalf of the Board, I am pleased to present the annual results of the Group for the year ended 31 December 2017.

During the year under review, it turned out to be a tumultuous and challenging year for the global apparel market, in which opportunities and growth came with risks and challenges. Under the shadow of political instability in the United States of America ("**U.S.**") and Europe, as well as the provocations from North Korea and its nuclear ambitions, the Volatility Index of the Chicago Board Options Exchange recorded spikes in April and August 2017. For a while, the public seemed to be uncertain on the sustainability of the growth of the economy and some of our key customers reacted conservatively, which inevitably affected Best Pacific's performance in 2017.

In spite of the twists and turns, Best Pacific continued to leverage on the advantages of our unique position as a one-stop solutions supplier, along with our profound relationship with our customers and business partners. Besides, we had been exploring more opportunities with our existing customers and potential clients by utilising the innovative and technical support from our research and development team. As a result, Best Pacific recorded revenue of approximately HK$2,794.8 million for the year ended 31 December 2017, hitting a record high since its listing on 23 May 2014. However, the increasing manufacturing costs, growing operating expenses and unfavourable changes in exchange rates put pressure on our margins. Accordingly, we executed certain measures to strengthen our internal management, including cost control and efficiency enhancement, and had sped up our international expansion plan.

Despite the uncertainty in the global market, the Consumer Confidence Index of December 2017 announced by The Conference Board stood at 122.1, representing a year-on-year increase of 8.8 index points. Simultaneously, the Global Manufacturing Purchasing Managers' Index issued by IHS Markit reached its near-seven-year high of 54.5 in December 2017. Both indices suggested the resumption of market confidence in the global economic prospects and we expect Best Pacific would be able to seize the respective opportunities in 2018, alongside with its existing expansion plans in Vietnam and Sri Lanka.

In particular, being the first overseas expansion project of Best Pacific, the operation in Vietnam has been launched and progressed as our management expected. After completion of the trial production, the official production has already kicked off in the third quarter of 2017. The relatively smooth operation in Vietnam has boosted our spirit and encouraged us to speed up the progress. We will continue to improve the production efficiency in Vietnam to allow the Group to further enjoy the respective benefit of the lower manufacturing costs in Vietnam. Looking forward, the production capacity in Vietnam will be gradually increased to meet the upsurge in market demand for high quality products.

Apart from the operation in Vietnam, Sri Lanka will be the next stop of Best Pacific's strategic expansion plan. On 6 November 2017 and 4 December 2017, we separately entered into two joint venture agreements with Brandix Lanka Limited ("**Brandix**") and MAS Capital (Private) Limited ("**MAS Capital**"), a wholly-owned subsidiary of MAS Holdings (Pvt) Ltd ("**MAS**"). Brandix and MAS are our existing major customers and both of them are reputable industry leaders in the realm of apparel and textile manufacturing with robust international production layouts. We believe that the strategic partnerships with our joint venture partners will allow the Group to leverage on their well-established presence in the global apparel market and to facilitate the development of the joint ventures and the Group in the long run.

Summing up the year of 2017, despite various difficulties and challenges from increasing costs and unpredictable currency market, the Group had been managing various difficulties and operated cautiously. Nevertheless, we will continue to deploy resources to our strategic expansion plan for the future development of the Group. Under our vision "build on innovation and technology", the Group firmly believes that we will be able to grasp further opportunities arising from the global apparel market, especially in the sportswear space, and to deliver a promising return to its investors in the longer run.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year under review, the global textile and apparel industry was generally in a difficult situation, as numerous retail brands reported diminished revenue and profits, and the impact was, to a certain extent, spread to the upstream. While facing the same challenges as the whole industry did, Best Pacific managed to seize some opportunities in the market. On one hand, the intense global demand for apparel and sportswear products with high standards on appearance, comfort and functionality continued to be our key driver of business expansion. Our sales orders correspondingly increased in both volume and amount during the year ended 31 December 2017. Revenue of the Group for the reporting year hit a record high of approximately HK$2,794.8 million since Best Pacific's listing, representing a growth of approximately 13.2% as compared to the year ended 31 December 2016. However, due to lower lingerie sales to our customers during the period of industry downturn and with which more competitive prices being requested, the growth was still below our expectation for the whole year 2017.

Thanks to the growing health consciousness of the public, the manufacturing and trading of elastic fabric continued to be benefited from the keen demand for comfortable and highly functional sports-related products. With our strong research and development capabilities, we further penetrated the markets of both existing and new customers. The revenue of elastic fabric for the year ended 31 December 2017 recorded approximately HK$1,767.7 million, representing a year-on-year increase of approximately 15.8%. In particular, the revenue of elastic fabric for sportswear use increased by approximately 74.9% to approximately HK$796.6 million during the reporting year.

With the effort of cross-selling of our team and our dedication in expanding our market share, the revenue of elastic webbing also reported an increase by approximately 13.1% to approximately HK$941.6 million during the year under review. Yet, due to the market demand for simpler and thinner lace, which commanded a lower unit selling price, the revenue of lace amounted to approximately HK$85.6 million during the reporting year, implying a year-on-year decrease of approximately 22.3%.

On the other hand, in order to meet the growing demands from the market and, at the same time, satisfy their requirements for shorter production lead time and better product quality, extra manufacturing costs were inevitably incurred. The increased investments in property, plant and equipment, the more stringent environmental protection regulations, the increases in our number of staff as well as their overall wages, all put pressure on our profit margins. In addition, more resources were devoted to our research and development team to improve our product quality and enhance the variety of our products to meet the customers' demands.

Furthermore, Renminbi ("**RMB**") had appreciated by approximately 6% against US$ in the year ended 31 December 2017. The exchange rate of RMB against US$ reached the year's peak in early September 2017 and maintained at a relatively high level till the year end. As the majority of our products were produced in the PRC and exported to overseas customers billing in US$, the appreciation of RMB against US$ further eroded our profit margins.

As a result of the above, our gross profit margin and net profit margin declined to approximately 27.6% and 10.9% for the year ended 31 December 2017, respectively, as compared to approximately 33.5% and 18.5% for the year ended 31 December 2016.

Measures pinpointing efficiency improvement and cost control were in place with a view to ease the pressure on our profit margins. At the same time, in order to minimise the impact from both the increases in costs and expenses as well as the fluctuations in exchange rates, strategic plans have been put in place to expand the Group's production capacities in Vietnam and Sri Lanka, in which the manufacturing costs are lower and the respective currencies are considered to be relatively stable.

As of the year ended 31 December 2017, our annual designed production capacities of elastic fabric, elastic webbing and lace were approximately 110.3 million meters, 1,669.4 million meters and 24.6 million meters, respectively, representing a year-on-year increase of approximately 30.4%, 40.2% and 7.8%, respectively. The increases were mainly due to the addition of capacities built in the PRC and the commencement of production of our manufacturing facility in Vietnam during the year. While we strive to control the manufacturing costs, in order to maintain our leading position as one of the world's largest lingerie fabric suppliers and to cope with the increasing demand should the market sentiment rebound, we will continue to closely monitor and assess the need and pace to increase our production capacities.

For our operation in Vietnam, the construction period subsisted until the beginning of the second half of the year 2017, in which period no revenue was generated but expenses were incurred. The expenses mainly included amortisation and depreciation, professional fees, staff benefits, training costs and utilities, etc., which put the Vietnam operation into a loss-making financial position. Nevertheless, we considered this ramp-up period necessary as it has enabled us to build a solid foundation in Vietnam. We started the official production and product delivery in the second half of the year 2017. By improving the productivity and production scale of the operation in Vietnam step by step, we are expecting the contribution from Vietnam and its significance to the Group continue to rise in the near future.

In addition to the operation in Vietnam, our investment plan in Sri Lanka was another highlight of the year 2017. We entered into two joint venture agreements with Brandix and MAS (via its wholly-owned subsidiary, MAS Capital) on 6 November 2017 and 4 December 2017, respectively. Brandix and MAS are our current major customers with long-term business relationships, and both of them are reputable leaders in the industry of apparel and textile manufacturing with mature international operation systems. These joint ventures will follow our methodology in the production of elastic fabric and elastic webbing and leverage on the well-established distribution networks of Brandix and MAS. Through these co-operation, not only can we be benefited from the revenue generated by these joint ventures, but also allow Best Pacific to gain the opportunities with our joint venture partners in exchanging the experience in managing a multinational corporation, thereby facilitating the growth and development of the Group. Nevertheless, we expect net start-up costs to be incurred during the construction period in 2018.

FINANCIAL REVIEW

Revenue

The Group's revenue is primarily derived from the sales of its major products, elastic fabric, elastic webbing and lace. For the year ended 31 December 2017, revenue amounted to approximately HK$2.79 billion, representing an increase of approximately HK$325.7 million, or approximately 13.2%, from approximately HK$2.47 billion for the year ended 31 December 2016. The increase in revenue during the year under review was mainly attributable to the increase in the volume of products sold as a result of the Group's continual expansion into the new sportswear and apparel materials segments.

A comparison of the Group's revenue for the years ended 31 December 2016 and 2017 by product categories is as follows:

	For the year ended 31 December					
	2017		2016		Change	
	Revenue *(HK$'000)*	**% of Revenue**	Revenue *(HK$'000)*	% of Revenue	*(HK$'000)*	%
Elastic fabric	**1,767,693**	**63.2**	1,526,439	61.8	241,254	15.8
Elastic webbing	**941,562**	**33.7**	832,509	33.7	109,053	13.1
Lace	**85,556**	**3.1**	110,158	4.5	(24,602)	(22.3)
Total	**2,794,811**	**100.0**	2,469,106	100.0	325,705	13.2

For the year ended 31 December 2017, revenue from sales of elastic fabric amounted to approximately HK$1.77 billion, representing an increase of approximately HK$241.3 million, or approximately 15.8%, as compared to the year ended 31 December 2016. The growth in revenue was mainly driven by the Group's continued expansion into the sportswear and apparel materials market, by leveraging on its high product quality, strong innovation research and development capabilities, and by fostering relationships with different sportswear brands, which were represented by a year-on-year growth of approximately 74.9% to approximately HK$796.6 million in sales revenue of sportswear fabric materials.

Revenue from sales of elastic webbing amounted to approximately HK$941.6 million, representing an increase of approximately HK$109.1 million, or approximately 13.1%, as compared to the year ended 31 December 2016. The growth in revenue was mainly due to the Group's dedication in cross-selling its different primary products.

Revenue from sales of lace decreased from approximately HK$110.2 million for the year ended 31 December 2016 to approximately HK$85.6 million for the year ended 31 December 2017. The year-on-year decline of approximately 22.3% was mainly due to the simpler and thinner lace, which commanded a lower unit selling price, sold by the Group in the year ended 31 December 2017, as compared to the year ended 31 December 2016.

Cost of sales

The Group's cost of sales mainly comprises costs of raw materials, manufacturing overheads, and direct labour costs.

Cost of sales – by nature of expense

	For the year ended 31 December					
	2017		2016		Change	
	(HK$'000)	**%**	*(HK$'000)*	%	*(HK$'000)*	%
Raw materials	**1,036,568**	**51.3**	886,264	54.0	150,304	17.0
Manufacturing overheads	**733,542**	**36.3**	555,414	33.8	178,128	32.1
Direct labour	**241,563**	**11.9**	188,645	11.5	52,918	28.1
Others	**10,466**	**0.5**	10,805	0.7	(339)	(3.1)
Total	**2,022,139**	**100.0**	1,641,128	100.0	381,011	23.2

The Group's cost of sales for the year ended 31 December 2017 amounted to approximately HK$2.02 billion, representing an increase of approximately HK$381.0 million, or approximately 23.2%, as compared to the year ended 31 December 2016. The increase in our cost of sales was primarily due to (1) the increase in total sales volume; (2) the increase in overall manufacturing overheads driven by the Group's continued business expansion as well as higher production costs to cope with the more stringent environmental rules and regulations; (3) the increase in direct labour costs as a result of an increase in number of staff as well as overall wages; and (4) the increase in costs due to RMB appreciation.

Cost of sales – by product category

	For the year ended 31 December					
	2017		2016		Change	
	(HK$'000)	**%**	*(HK$'000)*	%	*(HK$'000)*	%
Elastic fabric	**1,314,743**	**65.0**	1,019,727	62.2	295,016	28.9
Elastic webbing	**660,174**	**32.6**	563,635	34.3	96,539	17.1
Lace	**47,222**	**2.4**	57,766	3.5	(10,544)	(18.3)
Total	**2,022,139**	**100.0**	1,641,128	100.0	381,011	23.2

The cost of sales by product category as a percentage of the total cost of sales for the year ended 31 December 2017 remained relatively stable as compared to the year ended 31 December 2016.

Gross profit, gross profit margin and net profit margin

	For the year ended 31 December			
	2017		2016	
	Gross profit ***(HK$'000)***	**Gross profit margin** ***(%)***	Gross profit *(HK$'000)*	Gross profit margin *(%)*
Elastic fabric	**452,950**	**25.6**	506,712	33.2
Elastic webbing	**281,388**	**29.9**	268,874	32.3
Lace	**38,334**	**44.8**	52,392	47.6
Total	**772,672**	**27.6**	827,978	33.5

The overall gross profit decreased from approximately HK$828.0 million for the year ended 31 December 2016 to approximately HK$772.7 million for the year ended 31 December 2017. The Group's overall gross profit margin for the year ended 31 December 2017 decreased by approximately 5.9 percentage points to 27.6%, as compared to 33.5% for the year ended 31 December 2016. The decline in gross profit margin was mainly due to (i) a lower-than-expected revenue from sales of elastic fabric, elastic webbing and lace to lingerie customers; (ii) the higher direct labour costs and manufacturing overheads; and (iii) the increase in costs due to RMB appreciation.

Net profit for the year ended 31 December 2017 amounted to approximately HK$303.6 million, representing a decrease of approximately 33.5% as compared to approximately HK$456.3 million for the year ended 31 December 2016. The Group recorded a lower net profit margin of approximately 10.9% for the year ended 31 December 2017, representing a decline of 7.6 percentage points, as compared to the year ended 31 December 2016. The decrease in net profit margin for the reporting year was mainly due to (i) a lower gross profit margin attained; (ii) the increased overall costs spent on human resources; (iii) the start-up costs of the operation in Vietnam; and (iv) the increase in costs or losses due to RMB appreciation.

Other income

The Group's other income mainly consists of government grants, net proceeds from sales of scrap materials, bank interest income, dividend income and others. The following table sets forth the breakdown of the Group's other income for the years indicated:

	For the year ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Government grants	**24,105**	9,962
Net proceeds from sales of scrap materials	**10,309**	6,499
Bank interest income	**4,040**	18,708
Dividend income	**1,316**	–
Others	**10,887**	9,766
Total	**50,657**	44,935

The increase in other income by approximately 12.7%, from approximately HK$44.9 million for the year ended 31 December 2016 to approximately HK$50.7 million for the year ended 31 December 2017, was mainly the result of the aggregate net effect of the increases in government grants received, net proceeds from sales of scrap materials, dividend income received and the decrease in bank interest income.

Other gains and losses

Other gains and losses mainly consist of net foreign exchange gain/loss and change in fair value in derivative financial instruments. For the year ended 31 December 2017, the net foreign exchange loss was approximately HK$14.2 million (for the year ended 31 December 2016: net foreign exchange gain of approximately HK$19.7 million) and the change in fair value in derivative financial instruments was approximately HK$0.5 million (for the year ended 31 December 2016: approximately HK$7.3 million).

Selling and distribution expenses

Selling and distribution expenses primarily consist of employee benefit expenses, transportation, marketing and promotional expenses and other selling and distribution expenses. For the years ended 31 December 2016 and 2017, the Group's selling and distribution expenses represented approximately 4.9% and 5.3% of its total revenue, respectively. The increase in selling and distribution expenses was mainly due to the shorter production and delivery lead time as well as the Group's dedication in developing new businesses during the reporting year.

Administrative expenses

Administrative expenses primarily consist of employee benefit expenses, depreciation and amortisation, motor vehicle expenses, bank charges and other administrative expenses. The Group's administrative expenses remained relatively stable at approximately 6.6% of its total revenue for the years ended 31 December 2016 and 2017. The equity-settled share-based compensation included in employee benefit expenses for the year ended 31 December 2017 was approximately HK$1.7 million (for the year ended 31 December 2016: approximately HK$6.0 million).

Research and development costs

The Group is dedicated to catering to the changing market preferences by introducing innovative lingerie, apparel and sportswear materials. For the years ended 31 December 2016 and 2017, the Group's research and development costs represented approximately 2.2% and 3.0% of its total revenue, respectively.

Finance costs

The Group's finance costs mainly represent interest expenses for bank borrowings. The finance costs increased by approximately 22.9% from approximately HK$28.7 million for the year ended 31 December 2016 to approximately HK$35.2 million for the year ended 31 December 2017. The increase in finance costs was primarily due to the increase in average balance in bank borrowings as a result of continuous expansion in the Group's production scale and the general increase in market interest rate.

Income tax expenses

Hong Kong Profits Tax was calculated at 16.5% on the estimated assessable profit for 2016 and 2017.

Under the EIT Law and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25% during the years ended 31 December 2016 and 2017, unless there is any preferential tax treatment applicable.

Dongguan BPT, a subsidiary of the Company, has obtained the qualification as a high and new technology enterprise since 2010, which has been renewed for an additional three years from the financial year ended 31 December 2016. Hence, Dongguan BPT is subject to the preferential tax treatment and the applicable tax rate for both years was 15%. During the year ended 31 December 2016, Dongguan NHE, another subsidiary of the Company, was also qualified as a high and new technology enterprise for three years from the financial year ended 31 December 2016. Dongguan NHE is therefore also subject to the preferential tax treatment and the applicable tax rate for both years was 15%.

Pursuant to the relevant Vietnam Enterprises Income Tax rules and regulations, the applicable tax rates for the subsidiary operating in Vietnam is 20%. The subsidiary in Vietnam is eligible for tax holidays for two financial years since the first financial year of taxable profit and tax concession at a tax rate of 10% for the following four financial years. No provision for Vietnam Enterprises Income Tax has been made as the subsidiary in Vietnam has no assessable profit for both years.

Taxation arising in any other jurisdiction is calculated at the rate prevailing in the relevant jurisdiction.

The effective tax rate increased from 14.9% for the year ended 31 December 2016 to 15.6% for the year ended 31 December 2017.

Liquidity, financial resources and bank borrowings

As at 31 December 2017, net working capital (calculated as current assets less current liabilities) was approximately HK$744.3 million, representing a decrease of approximately HK$102.9 million as compared with 31 December 2016. The current ratio (calculated as current assets/current liabilities) is at 1.8 times as at 31 December 2017 as compared to 2.1 times as at 31 December 2016.

For the year ended 31 December 2017, net cash generated from operating activities decreased from approximately HK$376.0 million for the year ended 31 December 2016 to approximately HK$234.8 million for the year ended 31 December 2017.

Net cash used in investing activities amounted to approximately HK$1,009.9 million for the year ended 31 December 2017, as compared to net cash used in investing activities amounting to approximately HK$369.2 million for the year ended 31 December 2016. The main investing activities of the Group for the year ended 31 December 2017 were the investments spent on purchase of property, plant and equipment of approximately HK$1,010.3 million, in order to cope with the business expansion of the Group.

During the year ended 31 December 2017, net cash from financing activities amounted to approximately HK$516.0 million, as compared to net cash used in financing activities of approximately HK$182.3 million for the year ended 31 December 2016. The cash from the Group's financing activities for the year ended 31 December 2017 was mainly due to the drawdown of syndicated loan and bank borrowings.

As at 31 December 2017, the Group's gearing ratio was 53.9% (as at 31 December 2016: 31.2%), which was calculated on the basis of the amount of total bank borrowings as a percentage of total equity. The Group was in a net debt position (sum of bank deposits and bank balances and cash, less total bank borrowings) of approximately HK$997.2 million as at 31 December 2017, as compared to a net debt position of HK$94.0 million as at 31 December 2016.

Working capital management

	As at 31 December		Change	
	2017	2016	*(days)*	*(%)*
Trade and bills receivables turnover days	**79.0**	75.8	3.2	4.2
Trade and bills payables turnover days	**81.5**	91.1	(9.6)	(10.5)
Inventory turnover days	**108.2**	97.0	11.2	11.5

The trade and bills receivables turnover days remained relatively stable for the year ended 31 December 2016 and the year ended 31 December 2017.

The decrease in trade and bills payables turnover days for the year ended 31 December 2017 by 9.6 days was primarily due to the increase in use of cash to settle transactions for the benefits of better prices.

The increase in inventory turnover days from 97.0 days for the year ended 31 December 2016 to 108.2 days for the year ended 31 December 2017 was primarily attributable to the fact that more raw materials were purchased by the Group to cope with the rising raw material prices as well as the shorter production time as demanded by customers, resulting in more work-in-progress inventories being prepared.

Capital expenditure

For the year ended 31 December 2017, total addition to property, plant and equipment amounted to approximately HK$992.7 million (for the year ended 31 December 2016: approximately HK$494.6 million), which was mainly attributed to the increase in investment in machinery of approximately HK$653.8 million (for the year ended 31 December 2016: approximately HK$222.4 million) as well as the construction in progress of approximately HK$297.2 million (for the year ended 31 December 2016: approximately HK$242.1 million) to cope with the Group's overall business expansion.

Pledge of assets

As at 31 December 2017, the Group pledged certain bank deposits and equipment to secure the bills payables issued by and the obligations under the finance leases of the Group.

The carrying amounts of the assets pledged are as follows:

	As at 31 December	
	2017	2016
	(HK$'000)	*(HK$'000)*
Pledged bank deposits	**54,623**	61,610
Equipment	**34,019**	37,105
Total	**88,642**	98,715

Contingent liabilities

As at 31 December 2017, the Group did not have any significant contingent liabilities.

Events after the reporting period

The Group has no significant events after the reporting period and up to the date of this announcement.

Foreign exchange risk

A substantial portion of our revenue is denominated in US$ and HK$ and a portion of our purchases and expenses are denominated in RMB, the Group manages its foreign exchange risk by performing regular reviews and monitoring its foreign exchange exposure. Our finance department will monitor our foreign exchange risk on a continuous basis by analysing our domestic and overseas sales orders on hand, expected domestic and overseas orders from customers and estimated foreign currency payment for our purchases. We intend to manage our foreign exchange risks by (i) managing our sales, purchases and expenses denominated in HK$ and US$ through our Hong Kong subsidiaries and managing our sales, purchases and expenses denominated in RMB through our PRC subsidiaries; and (ii) holding cash and bank deposits denominated in RMB primarily by our PRC subsidiaries and cash and bank deposits denominated in HK$ and US$ primarily by our Company and Hong Kong subsidiaries.

Employees and remuneration policies

As at 31 December 2017, the Group employed a total of 6,409 full-time employees (as at 31 December 2016: 5,725). The increase in the number of employees was mainly due to the increase in the scale of the Group's business, in particular, the new operation in Vietnam. There was no significant change in the Group's remuneration policy during the year and the Group will continue to provide regular training and competitive remuneration packages to its staff. The Group's remuneration packages include salary, bonuses, allowances and retirement benefits based on employee's performance, skills and knowledge. The Group also provides additional benefits to its employees, such as subsidised accommodation, meals, accident and medical insurance and share options granted to eligible employees under the share option schemes of the Company.

FUTURE STRATEGIES AND PROSPECTS

Best Pacific has achieved certain milestones in 2017, including the significant growth of approximately 74.9% in sales of elastic fabric for sportswear use, the kick-off of production in Vietnam in the third quarter, and the initial establishment of strategic partnerships with our joint venture partners in Sri Lanka in the fourth quarter. All these have laid a solid foundation for the sustainable growth of Best Pacific in the future. However, at the same time, the Group has encountered various challenges in 2017, which are also perceived to continue for some time in 2018. While we strive to continue to control our manufacturing costs and further enhance our production efficiencies in the PRC, various overseas projects are expected to come into play in the near future, with which the Group would be able to benefit from the lower local manufacturing costs and soothe the pressure on our margins.

Although we emphasise on the importance of cost control and efficiency control, it does not imply that the high quality of our products and services can be neglected or sacrificed. Through our dedication in research and development, the Group has developed and will continue putting resources in developing a diversified portfolio of high-performance lingerie, apparel and sportswear materials. As always, "build on innovation and technology" has been the Group's vision in business management and new product development. Recognition from customers as well as being qualified as high and new technology enterprises in the PRC (with a preferential profits tax rate of 15% awarded) reinforce the Group's belief that product innovation is the key to Best Pacific's success. The management also expects that its determination to provide high quality products and services as well as its continuous enhancement in its research and development capabilities will attract more long-term quality customers and business partners.

Looking at the latest economic data of the U.S., the unemployment rate went down to approximately 4.1% by the end of 2017, indicating a year-on-year drop of approximately 0.7 percentage point. Meanwhile, the gross domestic product increased by an annual rate of approximately 3% in the second half of 2017. In general, the U.S. economy had been growing at a solid pace over the second half of 2017. If such momentum continues in 2018, the relatively stronger economic outlook and a more robust job market should result in growth in household incomes and consumer spending, which should bring about slight improvement in the retail market sentiment in 2018.

Meanwhile, the improvement in the U.S. economy also implies more room allowing the U.S. Federal Reserve to raise the federal funds rate as well as to execute the balance sheet normalisation program. In fact, the target range of the federal funds rate has already been raised by 0.25 percentage point in December 2017 and, simultaneously, the One-Month LIBOR, based on US$, has reached approximately 1.6%. As stated in the Federal Reserve's semi-annual Monetary Policy Report issued in March 2018, the Federal Open Market Committee is in view of further gradual increases in the federal funds rate. With our current reliance on debt financing, the Group expects the overall borrowing costs to increase in 2018. Our management will continue to closely monitor the interest rate exposure and will consider hedging strategies should the need arise.

Apart from the increase in interest rate, the unfavourable movements in foreign exchange rates may also bring a negative financial impact to the Group, with the majority of our sales currently denominated in US$ while the major production costs are still in RMB. In 2017, RMB had appreciated by approximately 6% against US$ and induced a net foreign exchange loss of approximately HK$14.2 million to the Group. In the first two months of 2018, RMB had further appreciated by approximately 3% against US$. In addition to monitoring the volatility in the currency market, our management expects the launch of production plant in Vietnam will help reduce the overall currency risk to the Group.

Looking forward, under the Group's internationalisation plan, we will further ramp up our facilities in Vietnam and we target to complete the investment in joint ventures in Sri Lanka in 2018. In the future, this international production layout will also save us delivery time to customers as well as manufacturing costs and operating expenses. It will also bring us more opportunities in the lingerie, apparel as well as sportswear materials markets and allow us to further consolidate our leading market position. Best Pacific is committed to and confident in delivering a satisfactory growth and return to its shareholders in the long run.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2017.

CHANGE OF COMPOSITION OF REMUNERATION COMMITTEE

The remuneration committee of the Company (the "**Remuneration Committee**") has three members. For the year ended 31 December 2017 and up to 19 March 2018, the members were Mr. Ding Baoshan (who was also the chairman of the Remuneration Committee), Mr. Lu Yuguang and Mr. Cheung Yat Ming.

With effect from 20 March 2018, Mr. Lu Yuguang has resigned as a member of the Remuneration Committee and Mr. Zhang Haitao, the Chief Executive Officer and an executive Director, has been appointed as a member of the Remuneration Committee. After the above changes, the Remuneration Committee comprises three members, namely Mr. Ding Baoshan, Mr. Zhang Haitao and Mr. Cheung Yat Ming and is chaired by Mr. Ding Baoshan.

AUDIT COMMITTEE

The Audit Committee of the Company, comprising the three independent non-executive Directors (being Mr. Sai Chun Yu, Mr. Cheung Yat Ming and Mr. Ding Baoshan), has reviewed with management the consolidated financial statements of the Group for the year ended 31 December 2017, including accounting principles and practices adopted by the Group, and discussed the relevant financial reporting matters.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu 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 Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

DIVIDEND POLICY AND FINAL DIVIDEND

The Board intends to maintain a long term, stable dividend payout ratio of not less than 20% of the Group's distributable profit for the year, providing shareholders with an equitable return.

The Board has resolved to declare a final dividend of HK5.9 cents per ordinary share in respect of the year ended 31 December 2017 (the "**Final Dividend**") (for the year ended 31 December 2016: HK9.5 cents). The Final Dividend is expected to be paid on or about 13 June 2018 to shareholders whose names appear on the register of members of the Company on 31 May 2018, subject to the approval by the shareholders at the forthcoming annual general meeting of the Company on 21 May 2018 (the "**AGM**").

The Board had resolved not to declare any interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: HK7.3 cents per ordinary share).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 May 2018 to 21 May 2018, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to determine the identity of shareholders who are entitled to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged not later than 4:30 p.m. on 15 May 2018 with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Subject to the approval of shareholders at the forthcoming AGM, the proposed Final Dividend will be payable to shareholders whose names appear on the register of members of the Company on 31 May 2018 and the register of members of the Company will be closed from 29 May 2018 to 31 May 2018, both days inclusive, during which no transfer of shares of the Company will be registered. In order to qualify for the proposed Final Dividend, all share transfer documents accompanied by the relevant share certificates shall be lodged not later than 4:30 p.m. on 28 May 2018 with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standard of corporate governance which is essential to the sustainable development and growth of the Company. The Board is of the view that the Company has met all the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange throughout the year ended 31 December 2017.

APPRECIATION

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, bankers and other business associates for their trust and support.

By Order of the Board
Best Pacific International Holdings Limited
Lu Yuguang
Chairman and executive Director

Hong Kong, 20 March 2018

As at the date of this announcement, the Board comprises Mr. Lu Yuguang, Mr. Zhang Haitao, Mr. Wu Shaolun, Ms. Zheng Tingting, Mr. Cheung Yat Ming, Mr. Ding Baoshan* and Mr. Sai Chun Yu*.*

* *Independent non-executive Director*