EMBRY HOLDINGS LIMITED
安莉芳控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1388)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

RESULTS HIGHLIGHTS

	2017	2016	Change
	(HK$'000)	*(HK$'000)*	
Revenue	2,339,524	2,216,082	+5.57%
Gross profit	1,825,492	1,744,551	+4.64%
Gross profit margin	78.03%	78.72%	-0.69% pts
Profit for the year attributable to owners	495,299	98,402	+403.34%
Profit for the year attributable to owners (excluding gain on the Relocation Arrangement and the respective income tax expense)	157,814	98,402	+60.38%
Net profit margin	21.17%	4.44%	+16.73% pts
Net profit margin (excluding gain on the Relocation Arrangement and the respective income tax expense)	6.75%	4.44%	+2.31% pts
	(HK cents)	*(HK cents)*	
Basic earnings per share	118.21	23.62	+400.47%
Diluted earnings per share	118.21	23.62	+400.47%
Basic earnings per share (excluding gain on the Relocation Arrangement and the respective income tax expense)	37.66	23.62	+59.44%
	(HK cents)	*(HK cents)*	
Interim dividend per share (paid)	2.50	2.50	N/A
Final dividend per share (proposed)	8.00	4.30	+86.05%
Total dividends per share for the year	10.50	6.80	+54.41%

The board of directors (the "Board" or "Directors") of Embry Holdings Limited (the "Company") is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017, together with the comparative figures in 2016 and the relevant explanatory notes, as set out below.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
REVENUE	4	2,339,524	2,216,082
Cost of sales		(514,032)	(471,531)
Gross profit		1,825,492	1,744,551
Gain on the Relocation Arrangement	11	449,980	-
Other income and gains, net	5	89,403	52,763
Selling and distribution expenses		(1,420,233)	(1,377,636)
Administrative expenses		(251,056)	(245,694)
Other expenses		(8,823)	(7,274)
Finance costs	6	(9,304)	(8,263)
PROFIT BEFORE TAX	7	675,459	158,447
Income tax expense	8	(180,160)	(60,045)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		495,299	98,402
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	10		
- Basic (HK cents)		118.21	23.62
- Diluted (HK cents)		118.21	23.62

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
PROFIT FOR THE YEAR	495,299	98,402
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income/(expense) to be reclassified to the income statement in subsequent periods:		
Exchange differences on translation of foreign operations	158,865	(117,655)
Other comprehensive income/(expense) not to be reclassified to the income statement in subsequent periods:		
Revaluation surplus	6,636	-
Deferred tax debited to asset revaluation reserve	(1,659)	-
	4,977	-
OTHER COMPREHENSIVE INCOME/(EXPENSE), NET OF TAX	163,842	(117,655)
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	659,141	(19,253)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,162,378	1,062,213
Investment properties		367,954	307,158
Prepaid land lease payments		40,564	33,996
Other Asset	11	431,807	-
Deferred tax assets		92,797	84,810
Deposits and other receivables	13	76,099	14,139
Total non-current assets		2,171,599	1,502,316
CURRENT ASSETS			
Inventories		655,453	659,347
Trade receivables	12	112,205	85,220
Prepayments, deposits and other receivables	13	75,883	58,309
Cash and cash equivalents		234,711	190,187
Total current assets		1,078,252	993,063
CURRENT LIABILITIES			
Trade payables	14	56,000	87,678
Interest-bearing bank borrowings	15	136,778	133,278
Tax payable		21,297	20,536
Other payables and accruals	16	322,564	274,174
Total current liabilities		536,639	515,666
NET CURRENT ASSETS		541,613	477,397
TOTAL ASSETS LESS CURRENT LIABILITIES		2,713,212	1,979,713
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	15	189,278	221,555
Deferred liabilities		189	1,889
Deferred tax liabilities		156,635	36,782
Total non-current liabilities		346,102	260,226
Net assets		2,367,110	1,719,487
EQUITY			
Equity attributable to owners of the Company			
Share capital		4,224	4,166
Reserves		2,362,886	1,715,321
Total equity		2,367,110	1,719,487

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except where otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

As explained below, the adoption of the above revised standards has had no significant financial effect on these financial statements.

(a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in the financial statements.

(b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as the Group did not have subsidiaries classified as a disposal group held for sale as at 31 December 2017.

3. SEGMENT INFORMATION

The Group's primary operating segment is the manufacture and sale of ladies' brassieres, panties, swimwear and sleepwear. Since this is the only operating segment of the Group, no further analysis thereof is presented. In determining the Group's geographical information, the revenue information is based on the locations of the customers, and the total non-current assets information, other than deferred tax assets, is based on the locations of the assets.

	Mainland China		Hong Kong		Others		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
Revenue from external customers	2,258,439	2,129,821	74,583	81,177	6,502	5,084	2,339,524	2,216,082
Non-current assets	1,987,426	1,329,130	91,376	88,376	-	-	2,078,802	1,417,506
Capital expenditure incurred during the year	99,459	209,470	775	1,250	-	-	100,234	210,720

For the years ended 31 December 2017 and 2016, as no revenue from sales to any customer of the Group has individually accounted for over 10% of the Group's total revenue, no information about major customers is presented under HKFRS 8.

4. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

5. OTHER INCOME AND GAINS, NET

	2017	2016
	HK$'000	HK$'000
Other income		
Subsidy income*	41,139	39,477
Gross rental income	16,361	14,534
Contingent rents receivable in respective of operating leases	725	784
Bank interest income	2,256	2,083
Royalty income	159	278
Others	2,180	4,460
	62,820	61,616
Gains, net		
Foreign exchange differences, net	22,583	(22,131)
Changes in fair value of investment properties	4,000	13,000
Gain on disposal/write-off of items of property, plant and equipment, net	-	278
	26,583	(8,853)
	89,403	52,763

* There are no unfulfilled conditions or contingencies relating to this income.

6. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Total interest on bank loans	9,304	8,263

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2017 HK$'000	2016 HK$'000
Cost of inventories sold*	514,032	471,531
Depreciation	57,218	53,476
Amortisation of prepaid land lease payments	988	928
Minimum lease payments under operating leases in respect of:		
Land and buildings	82,039	79,097
Contingent rents of retail outlets in department stores	541,284	545,052
Employee benefit expenses (excluding directors' and chief executive's remuneration):		
Wages and salaries	649,172	618,736
Write-back of provision for long service payments	(1,700)	(697)
Retirement benefit scheme contributions	64,817	63,881
	712,289	681,920
Auditor's remuneration	2,980	2,980
Advertising and counter decoration expenses	121,369	122,088
Provision/(write-back of provision) for obsolete inventories, net	(6,253)	37,366
Impairment of trade receivables**	2,784	359
Research and development expenditure	2,800	3,574
Loss/(gain) on disposal/write-off of items of property, plant and equipment, net	287	(278)
Foreign exchange differences, net	(22,583)	22,131
Gross and net rental income	(17,086)	(15,318)
Changes in fair value of investment properties	(4,000)	(13,000)
Bank interest income	(2,256)	(2,083)

* The cost of inventories sold for the year included HK$128,050,000 (2016: HK$175,828,000), relating to staff costs, depreciation of manufacturing facilities, minimum lease payments under operating leases in respect of land and buildings and the net provision/(write-back of provision) for obsolete inventories, which are also included in the respective total amounts disclosed above for each type of expenses.

** The impairment of trade receivables is included in "Administrative expenses" on the face of the consolidated income statement.

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the regions in which the Group operates.

	2017 HK$'000	2016 HK$'000
Current - Hong Kong		
Charge for the year	2,986	811
Overprovision in prior years	(20)	(20)
Current - Mainland China		
Charge for the year	63,276	72,844
Deferred	113,918	(13,590)
Total tax charge for the year	180,160	60,045

9. DIVIDENDS

	2017 HK$'000	2016 HK$'000
Dividends paid during the year:		
Final in respect of the financial year ended 31 December 2016 – HK4.30 cents* (2016: Final and special in respect of the financial year ended 31 December 2015 – HK9.00 cents and HK1.00 cent, respectively, per ordinary share)	17,916	41,666
Interim – HK2.50 cents^ (2016: HK2.50 cents) per ordinary share	10,528	10,417
	28,444	52,083
Proposed final dividend:		
Final – HK8.00 cents per ordinary share (2016: Final – HK4.30 cents per ordinary share)	33,793	17,916

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect the final dividend payable.

9. DIVIDENDS (continued)

* On 25 May 2017, the Company's shareholders approved at the annual general meeting a final dividend of HK4.3 cents per share payable in cash with a scrip dividend alternative (the "2016 Scrip Dividend Scheme") for the year ended 31 December 2016 (the "2016 Final Dividend"). During the year ended 31 December 2017, 4,461,797 new shares were issued by the Company at the average closing price of HK$3.058 per share, credited as fully paid, to shareholders of the Company who had elected to receive scrip shares in lieu of cash under the 2016 Scrip Dividend Scheme to settle HK$13,645,000 of the 2016 Final Dividend. The remainder of the 2016 Final Dividend of HK$4,271,000 was satisfied by cash. Further details of the 2016 Scrip Dividend Scheme are set out in the Company's circular dated 13 June 2017.

^ On 23 August 2017, the Company's board of directors declared an interim dividend of HK2.5 cents per share payable in cash with a scrip dividend alternative (the "2017 Interim Scrip Dividend Scheme") for the six months ended 30 June 2017 (the "2017 Interim Dividend"). During the year ended 31 December 2017, 1,293,841 new shares were issued by the Company at the average closing price of HK$2.536 per share, credited as fully paid, to shareholders of the Company who had elected to receive scrip shares in lieu of cash under the 2017 Interim Scrip Dividend Scheme to settle HK$3,281,000 of the 2017 Interim Dividend. The remainder of the 2017 Interim Dividend of HK$7,247,000 was satisfied by cash. Further details of the 2017 Interim Scrip Dividend Scheme are set out in the Company's circular dated 21 September 2017.

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic

The calculation of basic earnings per share is based on:

	2017 HK$'000	2016 HK$'000
Earnings		
Profit attributable to owners of the Company, used in the basic earnings per share calculation	495,299	98,402

	Number of shares 2017	2016
Shares		
Weighted average number of ordinary shares of the Company in issue, used in the basic earnings per share calculation	419,016,814	416,661,000
Basic earnings per share (HK cents)	118.21	23.62

(b) Diluted

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY (continued)

(c) Adjusted

As further disclosed in note 11 to the announcement, during the year, the Group recognised a gain on the Relocation Arrangement of HK$449,980,000 (2016: Nil) and the respective income tax expense of HK$112,495,000 (2016: Nil). Management is of the view that the gain is non-recurring and, in order to enable an investor to better understand the Group's result, it is meaningful to present a reconciliation of adjusted basic earnings per share based on profits attributable to owners of the Company excluding the gain on the Relocation Arrangement and the respective income tax expense.

The calculation of adjusted basic earnings per share is based on:

	2017 HK$'000	2016 HK$'000
Earnings		
Profit attributable to owners of the Company	495,299	98,402
Adjustments for:		
Gain on the Relocation Arrangement	(449,980)	-
Income tax expense on the Relocation Arrangement	112,495	-
Adjusted earnings		
Profit attributable to owners of the Company excluding the gain on the Relocation Arrangement and the respective income tax expense	157,814	98,402
Adjusted basic earnings per share excluding the gain on the Relocation Arrangement and the respective income tax expense (HK cents)	37.66	23.62

11. OTHER ASSET

In accordance with the requirements of the Shenzhen City's urban development plan issued by Shenzhen City Luohu District Town Re-development Bureau (深圳市羅湖區城市更新局), on 23 October 2017, Embry (China) Garments Ltd. ("Embry SZ"), a wholly-owned subsidiary of the Company, entered into a relocation compensation agreement and a supplemental relocation compensation agreement (collectively known as the "Relocation Compensation Agreement") with Shenzhen Huiren Jewelry City Investment Limited (深圳市惠仁珠寶城投資有限公司), a company established in the PRC and an independent third party developer (the "Developer") in order to implement a renewal plan by demolishing and rebuilding in the Buxin Industrial Area, Shenzhen, the PRC. The details of the Relocation Compensation Agreement are set out in the Company's announcement dated 25 October 2017. According to the Relocation Compensation Agreement, Embry SZ shall surrender its land use right and its properties situated in the Buxin Industrial Area (the "Original Properties"). The Developer, in return, agreed to (i) compensate Embry SZ new properties in a form of new industrial research and development buildings (新型產業研發辦公樓及配套商業) on a piece of industrial purposed land with an area similar to that of the Original Properties, to be developed and built by the Developer (the "New Properties"); (ii) compensate Embry SZ the cost of land use right of the Original Properties, rental cost for Embry SZ to lease properties during the move out period and other costs related to the Relocation Arrangement ("Cash Compensation"), which are repayable from the Developer within 5 years; and (iii) sell extra properties at a new building to be constructed in the Buxin Industrial Area, Shenzhen, the PRC ("New Building") to Embry SZ, whereby the price and area of such properties at the New Building shall be subject to further negotiation between Embry SZ and the Developer (collectively known as the "Relocation Arrangement").

Embry SZ has moved out from the Original Properties during the year and signed the properties transfer confirmation (房屋移交確認書) with the Developer on 30 November 2017.

To the best of the knowledge, information and belief of the Company's directors, having made all reasonable enquiry, the Group does not expect any obstacles to receive the New Properties and the Cash Compensation from the Developer. During the year ended 31 December 2017, the Group derecognised the property, plant and equipment and prepaid lease payments with carrying amounts of HK$1,973,000 and HK$1,428,000, respectively. According to the terms of the Relocation Compensation Agreement and the properties transfer confirmation, the Group recognised the fair value of the right to receive the New Properties (the "Other Asset") of HK$416,744,000, based on the valuation report issued by Cushman & Wakefield Limited ("CWL"), independent professionally qualified valuers, as an "Other Asset" and the Cash Compensation of HK$50,780,000 net off with respective relocation expenses of HK$14,143,000. Accordingly, a gain in relation to the Relocation Arrangement of HK$449,980,000 and the respective income tax expense of HK$112,495,000 were recognised in the consolidated income statement during the year ended 31 December 2017. The valuation is dependent on certain significant inputs that involve judgements, including gross unit rate per square meter. The Other Asset, being the consideration received upon disposal of the Original Properties under the Relocation Arrangement, is initially recognised at its fair value and subsequently carries at cost less impairment.

At 31 December 2017, the carrying amounts of Other Asset and receivables in relation to Cash Compensation under the Relocation Arrangement are approximately HK$431,807,000 and HK$47,921,000 (note 13), respectively.

12. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for wholesalers, where payment in advance is normally required. The credit period is generally for a period of one month, extending up to three months for major customers. The Group seeks to maintain strict control over its outstanding receivables by the sales department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the Group's trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2017 HK$'000	2016 HK$'000
Within 90 days	106,096	79,516
91 to 180 days	6,109	5,704
181 to 360 days	3,259	977
Over 360 days	1,559	1,057
	117,023	87,254
Less: Impairment allowance	(4,818)	(2,034)
	112,205	85,220

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Prepaid land lease payments	989	877
Deposit paid and related direct cost for the land use right in Shandong	12,361	2,340
Deposits for acquisition of items of property, plant and equipment	23,663	11,799
Prepayments	29,969	16,059
Receivables in relation to Cash Compensation under the Relocation Arrangement (note 11)	47,921	-
Deposits and other receivables	37,079	41,373
	151,982	72,448
Current portion included in prepayments, deposits and other receivables	(75,883)	(58,309)
Non-current portion	76,099	14,139

None of the financial assets included in the above balances is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

14. TRADE PAYABLES

An ageing analysis of the Group's trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017 HK$'000	2016 HK$'000
Within 90 days	48,881	80,240
91 to 180 days	4,377	3,051
181 to 360 days	765	2,018
Over 360 days	1,977	2,369
	56,000	87,678

The trade payables are non-interest-bearing and are normally settled on 30 to 90 days terms.

15. INTEREST-BEARING BANK BORROWINGS

	2017			2016		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – unsecured	Hong Kong Interbank Offered Rate ("HIBOR") +1.85 to HIBOR +2.00	2018	136,778	HIBOR +1.75 to HIBOR +2.25	2017	133,278
Non-current						
Bank loans – unsecured	HIBOR +1.85 to HIBOR +1.95	2019-2021	189,278	HIBOR +1.85 to HIBOR +1.95	2018-2021	221,555

	2017 HK$'000	2016 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year	136,778	133,278
In the second year	81,278	57,278
In the third to fifth years, inclusive	108,000	164,277
	326,056	354,833
Less: Amount repayable within one year and classified as current portion	(136,778)	(133,278)
Amount classified as non-current portion	189,278	221,555

The above bank loans are denominated in Hong Kong dollars and bear interest at rates ranging from 1.85% to 2.00% above the HIBOR per annum (2016: 1.75% to 2.25% above the HIBOR per annum).

16. OTHER PAYABLES AND ACCRUALS

	2017 HK$'000	2016 HK$'000
Other payables	110,605	107,367
Accruals	211,959	166,807
	322,564	274,174

Other payables are non-interest-bearing.

17. COMMITMENTS

At the end of the reporting period, the Group had the following commitments:

	2017 HK$'000	2016 HK$'000
Contracted for commitments in respect of the acquisition of property, plant and equipment	262,425	122,738

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Operations Review

Looking back on 2017, the global economy continued to recover while the U.S., China and emerging economies showed the trend of steady growth. The RMB exchange rate saw accumulated appreciation of over 6% against the U.S. dollars, bringing an end to the three consecutive years of depreciation and recording the largest appreciation in nine years. According to China's National Bureau of Statistics, the country's gross domestic product grew by 6.9% to RMB82,712.2 billion in 2017.

China's steady economic growth boosted consumer sentiment. Total retail sales of consumer goods in the country amounted to RMB36,626.2 billion, 10.2% higher than the previous year. With the increasing income levels and purchasing power of consumers, together with changing consumption attitudes and spending habits, the underwear market has been undergoing continuous transformation. The public's increasing focus on inner quality of life encouraged the segmentation of underwear products in China while industry competition intensified as consumers demonstrated increasing brand awareness. Frequent promotion events in the market resulted in pressure on gross profit margin. The Group has been making good use of its brand reputation and advantages established in the industry to pragmatically respond to changes in the market environment and promote sustainable business development.

For the year ended 31 December 2017 (the "Current Year"), the Group's revenue increased by 5.57% over that of the year ended 31 December 2016 (the "Prior Year") to HK$2,339,524,000. Gross profit margin slightly decreased by 0.69 percentage points to 78.03%. Profit attributable to owners of the Company was HK$495,299,000, net profit margin was 21.17%. Earnings per share was HK118.21cents (2016: HK23.62 cents). Excluding the gain on the Relocation Arrangement and the respective income tax expense, earnings per share was HK37.66 cents (2016: HK23.62 cents).

The Board of Directors of the Company resolved to declare a final dividend of HK8.00 cents per share (2016: HK4.30 cents) for the Current Year which, together with the interim dividend of HK2.50 cents per share (2016: HK2.50 cents) distributed, will bring the total dividend for the Current Year to HK10.50 cents per share.

Brand management

In 2017, the Group continued to make good use of its multi-brand strategy and allocated internal resources flexibly. In response to the enormous mid to high-end consumption market, the Group actively adjusted its strategies to constantly reinforce the brand images of ***EMBRY FORM*** and ***FANDECIE*** and focused on cultivating ***IVU***, ***E-BRA*** and ***COMFIT*** as growth drivers of the Group. Through continuously consolidating the market position and increasing market share, coupled with positioning the brand ***E-BRA*** as the brand for online shopping and the brand ***IADORE*** as the offline wholesale brand, the Group were committed to implementing an omni-channel coverage.

The Group promoted and advertised its brands and products actively to enhance brand equity. During the Current Year, the Group participated in a series of activities in 2017 China (Shenzhen) International Brand Underwear Fair, Changsha Fashion Week and China International Knitting Trade Fair (Autumn/Winter) to showcase different styles of its brands and demonstrate its design capabilities, which laid a solid foundation for the long-term brand influence.

Business and Operations Review (continued)

Brand management (continued)

In 2017, the Group concentrated more on brand marketing and promotion through a combination of online platform and offline public relations activities, and stepped up its investments in online platform. In particular, at the opening act of Shenzhen Underwear Fair, the Group additionally adopted the promotion method of live broadcast, as well as invited Internet celebrities to conduct live online broadcast of boutique exhibition booths and distribute e-coupons to promote sales in online shops of the Group. During the Changsha Fashion Week, the Group conducted a live online broadcast of ***EMBRY FORM*** Lingerie Show and received positive responses on the Internet. In addition, ***EMBRY FORM*** placed its products in a popular drama for the first time. With a break-in advertisement featuring the characters in the drama, the elegance and sexiness of ***EMBRY FORM*** products were brought to consumers in a unique and innovative way.

The Group continued to promote its products through spreading its brand culture on the Internet during the Current Year and strengthened consumer awareness of its brands to establish a solid foundation for its online shopping business. In light of the increasingly mature e-commerce platforms and changes in consumers' shopping habits, the Group will launch suitable products to meet customers' needs and grasp the market development opportunities.

Sales network

In order to enhance its operating efficiency, the Group continued to implement its network optimisation strategy during the Current Year. The Group appropriately adjusted its retail outlets by closing or relocating stores with lower efficiency so as to enhance the overall efficiency of its sales network. As at 31 December 2017, the Group had 1,925 retail outlets in total, including 1,705 concessionary counters and 220 stores. During the Current Year, there was a net decrease of 142 retail outlets of the Group. Meanwhile, the Group's products were also available for sale through different online platforms so as to reach out to more potential customers on the Internet.

Product design, research and development

Under severe market competition in the underwear industry, the Group has been deeply aware of the importance of upholding high-quality standards and hence continued to devote resources to the design, research and development of new products. The Group launched products with outstanding quality for various markets through innovation and improvement in patented designs to meet varying consumer needs.

During the Current Year, the Group launched a variety of well-received new collections, including: ***EMBRY FORM***'s "Elegant Series" (「清雅系列」) and "Enjoyable Moments Series" (「輕享時光系列」); ***FANDECIE***'s "Dazzling Series" (「流光炫色系列」) and "Modern Crossover Series" (「摩登拼紋系列」); ***COMFIT***'s "Simple and Comfortable Series" (「簡約舒適系列」) and "Blessed Pregnancy Series" (「幸孕系列」); ***E-BRA***'s "Dreamy Orchids Series" (「夢影幽蘭系列」) and "Light and Fresh Series" (「輕新主張系列」); ***IADORE***'s "Floral Fresh Series" (「花意清舒系列」) and "Secret Whispers Series" (「秘密私語系列」); ***LIZA CHENG***'s "Starry Embroidery Series" (「星彩刺繡系列」) and "Aromatic Love Series" (「香戀系列」); ***IVU***'s "Fashionable Panties Series" (「時尚內褲系列」) and "Colour Sensation Series" (「色覺系列」).

In 2017, the Group obtained 7 new patents, including 3 utility model patents, 3 invention patents and 1 appearance design patent. As at 31 December 2017, the Group had 11 invention patents, 37 utility model patents and 3 appearance design patents.

Business and Operations Review (continued)

Production capacity

Over the years, most of the products were manufactured by the Group. Through the flexible deployment of manpower and machine capacity, the Group quickly responded to market demand and rapid changes in consumer preferences. On 23 October 2017, pursuant to the requirements of Shenzhen's urban development plan, the Group entered into a relocation compensation agreement with the developer to implement redevelopment plan. The Group has entered into a lease contract for a property in Luohu District in Shenzhen and completed relocation within the year, with no significant impact on operation.

The Group's intelligent warehouse at the production base in Jinan, Shandong province was at its trial run stage in 2017 and it progressed as scheduled.

In addition, in order to meet the future expansion needs of the Group, on 27 December 2017, the Group engaged a contractor to construct the second phase of plant premises and ancillary facilities at the production base in Changzhou, Jiangsu province. It is expected to be completed in September 2018.

Awards

During the Current Year, various brands of the Group, namely ***EMBRY FORM***, ***FANDECIE***, ***COMFIT*** and ***E-BRA*** were awarded "**Annual Charity Award of China's Underwear Industry**", "**Annual Industry Responsibility Award of China's Underwear Industry**", "**Annual Industry Style Award of China's Underwear Industry**", "**Annual Innovation Award of China's Underwear Industry**" and "**Annual Brand Equity Award of China's Underwear Industry**" respectively in China (Shenzhen) International Brand Underwear Fair.

During the Current Year, the Group was granted the awards of "**National Excellent Enterprise with Foreign Investment — Excellent Tax Payment and Turnover**", "**National Excellent Enterprise with Foreign Investment — Quality Enhancement**" and "**National Excellent Enterprise with Foreign Investment — Harmonious Labour Relations Promotion**" again by China Association of Enterprises with Foreign Investment and Shenzhen Association of Enterprises with Foreign Investment. ***EMBRY FORM*** was accredited by the Hong Kong Brand Development Council and the Chinese Manufacturers' Association of Hong Kong as the "**Hong Kong Top Brand**" for eleven consecutive years.

Human resources

Implementation of the minimum wage policy and tight labour supply in China have resulted in continuous wage increase. The Group endeavoured to boost staff loyalty through measures such as organising training courses and improving employee benefits to enhance solidarity, thereby improving its overall operational efficiency. The number of employees of the Group decreased to approximately 7,862 (2016: approximately 8,780). Total staff costs (including wages and basic salaries, commissions, bonuses, contributions to the retirement benefits scheme and excluding directors' and chief executive's remunerations) for the Current Year was HK$712,289,000 (2016: HK$681,920,000).

Financial Review

Revenue

By sales channel and region
Revenue for the Current Year was HK$2,339,524,000, representing a 5.57% increase over the Prior Year.

During the Current Year, revenue from the retail sales was HK$1,993,924,000, accounting for 85.23% of the Group's total revenue and representing an increase of 7.18% over the Prior Year. Revenue from the Internet and wholesale business decreased by 3.29% from HK$350,649,000 to HK$339,098,000, accounting for 14.49% of the total revenue.

The Mainland China market is the main source of income for the Group. During the Current Year, revenue from the Mainland China market was HK$2,258,439,000, accounting for 96.53% of the total revenue of the Group.

By brand and product line
The Group currently operates seven brands, namely ***EMBRY FORM***, ***FANDECIE***, ***COMFIT***, ***E-BRA***, ***IADORE***, ***IVU*** and ***LIZA CHENG***, serving customers with different needs and varying degrees of purchasing power.

EMBRY FORM, the signature brand, is the main source of income for the Group and its revenue amounted to HK$1,082,048,000, with its contribution to the total revenue increasing to 46.25%, mainly due to the higher discount for ***EMBRY FORM*** products during the Current Year, attracting more consumers to buy this mid- to high-end signature brand. ***FANDECIE***'s revenue increased by 3.65% from the Prior Year to HK$615,487,000, accounting for 26.31% of the total revenue for the Current Year. ***COMFIT***'s revenue increased by 6.49% from the Prior Year to HK$205,825,000, accounting for 8.80% of the total revenue for the Current Year. ***E-BRA***'s revenue increased by 8.81% from the Prior Year to HK$249,664,000, accounting for 10.67% of the total revenue for the Current Year. ***LIZA CHENG***'s revenue for the Current Year increased by 7.49% to HK$41,861,000. ***IADORE***'s revenue increased by 9.85% from the Prior Year to HK$62,196,000, accounting for 2.66% of the total revenue for the Current Year. ***IVU***'s revenue increased by 10.10% from the Prior Year to HK$75,941,000, accounting for 3.25% of the total revenue for the Current Year. The brands' respective proportion in revenue mainly reflected the Group's alignment of its business focus to market development.

Lingerie has always been the Group's core product. During the Current Year, sales of lingerie increased by 5.54% over the Prior Year to HK$2,050,945,000, representing 87.67% of the revenue of the Group. Sales of sleepwear increased by 6.53% to HK$137,740,000, accounting for 5.89% of the total revenue of the Group, while sales of swimwear decreased by 6.34% to HK$119,679,000, accounting for 5.12% of the total revenue of the Group.

Financial Review (continued)

Gross Profit
During the Current Year, the Group recorded a gross profit of approximately HK$1,825,492,000, representing an increase of 4.64% over the Prior Year. Gross profit margin was 78.03%, representing a slight decrease of 0.69 percentage points from the Prior Year. The decrease in gross profit margin was mainly due to the Group's enhanced effort in promotional activities in response to increasing market competition.

Gain on the Relocation Arrangement
During the Current Year, the Group has entered into a relocation compensation agreement and supplemental agreement with a developer (the "Relocation Agreements"). Recognition of the gain on the Relocation Arrangement pursuant to the Relocation Agreements is HK$449,980,000 in accordance with the applicable accounting standards adopted by the Group. Details of the above are set out in note 11 to the announcement.

Other income and gains
Other income rose 69.44% to HK$89,403,000 for the Current Year, which included the foreign exchange gain of approximately HK$22,583,000 due to the appreciation of Renminbi.

Operating expenses
During the Current Year, selling and distribution expenses increased by 3.09% to HK$1,420,233,000 (2016: HK$1,377,636,000), accounting for 60.71% (2016: 62.17%) of the Group's revenue.

The decrease in the proportion of selling and distribution expenses in overall sales mainly reflected the Group's endeavour to control costs under the current business environment. The high level of rents of the retail outlets and the increase in staff costs continued to exert pressure on operating costs. In 2017, to mitigate rising cost pressure, the Group closed retail outlets with lower profitability so as to enhance its efficiency. During the Current Year, contingent rents of the retail outlets decreased by 0.69% to HK$541,284,000, accounting for 23.14% (2016: 24.60%) of the Group's revenue.

Administrative expenses increased by 2.18% over the Prior Year to HK$251,056,000, accounting for 10.73% of the Group's revenue.

Net profit
Profit attributable to owners of the Company was HK$495,299,000 for the Current Year, representing an increase of 403.34% over the Prior Year. Net profit margin increased from 4.44% for the Prior Year to 21.17%. The increase in net profit was due to the gain on the Relocation Arrangement pursuant to the Relocation Agreements. Excluding the gain on the Relocation Arrangement and the respective income tax expense, profit attributable to owners of the Company was HK$157,814,000, representing an increase of 60.38%, which was mainly attributable to the Group's endeavour to control costs and its effective multi-brand strategy. Net profit margin increased from 4.44% for the Prior Year to 6.75%.

Liquidity and financial resources
The Group finances its operations mainly with internally generated cash flows. Financial position of the Group remained sound and healthy during the Current Year. As at 31 December 2017, the Group's cash and cash equivalents amounted to approximately HK$234,711,000 (2016: HK$190,187,000). As at 31 December 2017, the Group's interest-bearing bank borrowings amounted to HK$326,056,000 (2016: HK$354,833,000). As at 31 December 2017, the equity interest attributable to owners of the Company amounted to HK$2,367,110,000 (2016: HK$1,719,487,000). Accordingly, the gearing ratio of the Group was approximately 13.77% (2016: 20.64%).

Financial Review (continued)

Capital expenditure
During the Current Year, the capital expenditure of the Group amounted to HK$100,234,000 (2016: HK$210,720,000), which was mainly used for the intelligent warehouse and the automated supply chain logistics facility of the Group. As at 31 December 2017, the capital commitments of the Group amounted to HK$262,425,000 (2016: HK$122,738,000), which were contracted but not provided for in the financial statements.

Charge on the Group's assets
As at 31 December 2017, the Group did not pledge any assets.

Capital structure
As at 31 December 2017, the total issued share capital of the Company was HK$4,224,000 (2016: HK$4,166,000), comprising 422,417,000 (2016: 416,661,000) ordinary shares of HK$0.01 each. The increase in the number of issued shares resulted from the 2016 Scrip Dividend Scheme and the 2017 Interim Scrip Dividend Scheme. Details are set out in note 9 to the announcement.

Significant investment held, material acquisitions and disposals of subsidiaries and associated companies
During the Current Year, the Group was neither involved in any significant investment, nor any material acquisitions or disposals of any subsidiaries or associated companies.

Foreign currency exposure
The Group carries out its transactions mainly in Hong Kong dollars and Renminbi. The Group does not use derivative financial instruments to protect against the volatility associated with foreign currency transactions and other financial assets and liabilities created in the ordinary course of the business.

Contingent liabilities
As at 31 December 2017, bank guarantees given in lieu of the Group's property rental deposits and utility deposits amounted to HK$243,000 (2016: HK$1,788,000). Save as disclosed above, the Group had no other significant contingent liabilities, nor any litigation or arbitration of material importance.

PROSPECT

Looking ahead to 2018, despite the ongoing global political and economic uncertainty, the domestic economy is expected to maintain steady growth, supporting consumer confidence in the long-term. China continues to undergo economic restructuring and is committed to shifting from a capital-intensive exporting country to a consumption-oriented economy, which will favour the long-term healthy development of the economy and retail markets. However, rising trade protectionism and escalating geopolitical tensions could derail the nascent recovery in global economic growth, the retail industry should remain vigilant and be prepared for external economic uncertainties.

As a major brand operator in the lingerie industry in China, the Group closely monitors the market dynamics and adopts prudent and flexible development strategies to actively grasp the development opportunities and address the upcoming challenges in the market. With the development and improvement of Internet network and logistics infrastructure, the e-commerce market has been growing rapidly. In order to cater for market development and consumer demand, the Group will intensify its investment and development in e-commerce and continue to develop exclusive high-quality products.

With the increase in domestic per capita income and consumption upgrade in recent years, consumers are increasingly pursuing the exquisite shopping experience. In order to meet the market demand for quality services and products, the Group will continue to carry out multi-brand strategy and launch diverse products for the consumers at different consumption levels in 2018 to enhance the Group's influence in the industry. Meanwhile, the Group will continue to optimise its sales network structure and close underperforming stores, thereby raising overall operating efficiency.

Moreover, the second phase of the automated supply chain logistics equipment is now being installed in the intelligent warehouse at the Group's production base in Jinan, Shandong province, which is expected to enhance efficiency of the supply chain, optimise productivity and operating performance, and increase the overall competitiveness of the Group. In response to the future needs of business development of the Group, the Group has started the construction of the second phase of plant premises and ancillary facilities at the production base in Changzhou, Jiangsu province.

With solid business foundation established over the years, multi-brand strategy, innovative product portfolio and uncompromising product quality, the Group is confident of capitalising on its own strengths in the ever-changing market. The Group will prudently implement and constantly review its business strategies to foster long-term, steady business growth and generate satisfactory returns to its shareholders.

OTHER INFORMATION

FINAL DIVIDEND
The Board has resolved to recommend the payment of a final dividend of HK8.00 cents per ordinary share in respect of the year ended 31 December 2017 (the “Proposed Final Dividend”), to the shareholders whose names appear on the register of members of the Company on 31 May 2018, resulting in an appropriation of approximately HK$33,793,000.

The Proposed Final Dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company to be held on 24 May 2018 ("AGM"). The Proposed Final Dividend will be payable on 14 June 2018.

CLOSURE OF REGISTER OF MEMBERS
(a) Entitlement to Attend and Vote at the AGM
For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 17 May 2018 to Thursday, 24 May 2018, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 16 May 2018.

(b) Entitlement to the Proposed Final Dividend
For determining the entitlement to the Proposed Final Dividend (subject to approval by the shareholders at the AGM), the register of members of the Company will be closed on Thursday, 31 May 2018 on which no transfer of shares of the Company will be registered. In order to be eligible for the Proposed Final Dividend, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited at the above address for registration no later than 4:30 p.m. on Wednesday, 30 May 2018.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES
Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE
The Company complied with the applicable code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the accounting period covered by the 2017 annual report, save for the following deviation:

The code provision E.1.2 stipulates that the chairman of the board of directors should attend the annual general meeting. Madam Ngok Ming Chu, the Chairman of the Board, was unable to attend the Company’s annual general meeting held on 25 May 2017 due to other engagement. In view of her absence, Madam Ngok had arranged for other directors and management, who are well-versed in the Company’s business and affairs, to attend the meeting and communicate with shareholders of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as its own code of conduct for Directors' and employees' securities transactions ("Securities Dealing Code"). Having made specific enquiry of all the Directors and members of the senior management, they have confirmed their compliance with the required standard set out in the Securities Dealing Code during the year.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the consolidated results of the Group for the year ended 31 December 2017. The audit committee is composed of three independent non-executive Directors of the Company, namely Mr. Lau Siu Ki, Mr. Lee Kwan Hung and Prof. Lee T.S. The chairman of the audit committee has appropriate professional qualifications and experience in financial matters.

REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated income statement and consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary results announcement have been agreed by the Company's independent auditor, Ernst & Young, Certified Public Accountants of Hong Kong ("Ernst & Young") to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young 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 Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by Ernst & Young on the preliminary results announcement.

PUBLICATION OF 2017 ANNUAL REPORT

The 2017 annual report of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and will also be published on the websites of the Company at http://www.embrygroup.com and Hong Kong Exchanges and Clearing Limited at http://www.hkexnews.hk in due course.

By Order of the Board
Embry Holdings Limited
Ngok Ming Chu
Chairman

Hong Kong, 22 March 2018

As at the date of this announcement, the Board comprises four executive Directors, namely Madam Ngok Ming Chu (Chairman), Ms. Cheng Pik Ho Liza (Chief Executive Officer), Mr. Cheng Chuen Chuen and Ms. Lu Qun; and three independent non-executive Directors, namely Mr. Lau Siu Ki, Mr. Lee Kwan Hung and Prof. Lee T. S.