Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

Annual Report 2011

Stock Code : 458

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CORPORATE INFORMATION

WANG KOO Yik Chun
Honorary Chairlady

TANG Chi Chien, Jack
Chairman Emeritus

CHAIRMAN EMERITUS
TANG Chi Chien, Jack, *CBE (H)*

BOARD OF DIRECTORS
Executive Director:
WANG Kin Chung, Peter,
Chairman and Chief Executive Officer

Non-Executive Directors:
WANG KOO Yik Chun, *Honorary Chairlady*
MAK WANG Wing Yee, Winnie
WANG Shui Chung, Patrick

Independent Non-Executive Directors:
LO Kai Yiu, Anthony
James Christopher KRALIK
Peter TAN

AUDIT COMMITTEE
LO Kai Yiu, Anthony,
Chairman of the Audit Committee
MAK WANG Wing Yee, Winnie
James Christopher KRALIK

REMUNERATION COMMITTEE
MAK WANG Wing Yee, Winnie,
Chairlady of the Remuneration Committee
LO Kai Yiu, Anthony
James Christopher KRALIK
Peter TAN

SHARE OPTION COMMITTEE
WANG Kin Chung, Peter,
Chairman of the Share Option Committee
MAK WANG Wing Yee, Winnie

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY
AU King Lun, Paulina

AUDITOR
PricewaterhouseCoopers,
Certified Public Accountants

LEGAL ADVISORS
On Hong Kong Law : Reed Smith Richards Butler
On Bermuda Law : Appleby

PRINCIPAL BANKERS
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
Citibank, N.A.
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
The Bank of East Asia, Limited

REGISTERED OFFICE
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

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5th Floor, 66–72 Lei Muk Road
Kwai Chung, New Territories
Hong Kong
Tel : (852) 2279-3888
Fax : (852) 2480-4676
Website : http://www.tristateww.com

CORPORATE COMMUNICATIONS
The Company Secretary
Tristate Holdings Limited
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LISTING INFORMATION
The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 1988.
Stock short name : Tristate Hold
Stock code : 458
Board lot : 1,000 shares

PRINCIPAL REGISTRAR AND TRANSFER OFFICE
Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke, HM08
Bermuda
Tel : (441) 299-3882
Fax : (441) 295-6759

BRANCH REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong
Tel : (852) 2862-8555
Fax : (852) 2865-0990

	2011 *HK$'000*	2010 *HK$'000*	2009 *HK$'000*	2008 *HK$'000*	2007 *HK$'000*
CONSOLIDATED INCOME STATEMENT					
Revenue	**3,273,299**	3,035,219	2,828,809	3,491,630	2,913,318
Profit/(loss) for the year attributable to:					
Equity holders of the Company	**249,766**	196,735	(101,651)	105,604	132,874
Non-controlling interests	**(24)**	–	(36)	(35)	1,991
Profit/(loss) for the year	**249,742**	196,735	(101,687)	105,569	134,865
Basic earnings/(loss) per share attributable to equity holders of the Company	**HK$0.93**	HK$0.73	(HK$0.38)	HK$0.39	HK$0.50
CONSOLIDATED STATEMENT OF FINANCIAL POSITION					
Non-current assets	**989,738**	877,697	731,130	720,323	462,135
Current assets	**1,513,481**	1,187,127	1,101,808	1,153,360	1,210,066
Current liabilities	**893,655**	720,363	655,191	645,418	615,261
Net current assets	**619,826**	466,764	446,617	507,942	594,805
Total assets less current liabilities	**1,609,564**	1,344,461	1,177,747	1,228,265	1,056,940
Non-current liabilities	**248,913**	160,839	191,002	237,661	137,884
Net assets	**1,360,651**	1,183,622	986,745	990,604	919,056
Capital and reserves attributable to equity holders of the Company	**1,360,274**	1,183,221	986,344	990,162	918,569
Non-controlling interests	**377**	401	401	442	487
Total equity	**1,360,651**	1,183,622	986,745	990,604	919,056

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Tristate Holdings Limited ("Tristate") and its subsidiaries (together, the "Group") recorded an encouraging financial performance in 2011 despite the challenging operating environment. Our branded product distribution, retail and trading segment achieved substantial growth in 2011 from point of sales ("POS") expansion. The garment manufacturing segment also performed steadily in 2011.

RESULTS AND DIVIDENDS

For the year ended 31 December 2011, revenue of the Group increased by 8% from HK$3,035,219,000 in 2010 to HK$3,273,299,000 in 2011; while profit attributable to equity holders increased by 27% from HK$196,735,000 in 2010 to HK$249,766,000 in 2011.

The Board recommends the payment of a final dividend of HK$0.22 per share in addition to the 2011 interim dividend of HK$0.15 per share paid on 3 October 2011.

BRANDED PRODUCT DISTRIBUTION, RETAIL AND TRADING BUSINESS

Benefited from the China market development, the Group's branded product distribution and retail business had recorded substantial growth in the financial year 2011. POS in China had surpassed 600 covering 100 major cities by end of 2011, as compared to POS of over 400 in 2010. To support rapid business growth, the Group has increased advertising and promotional activities, and strengthened sales, marketing and operational supports.

GARMENT MANUFACTURING

In the financial year 2011, the advanced economies were disappointing. In the US, economic growth was sluggish and both corporates and consumers were struggling from the aftermath impact of the financial crisis. In Europe, the sovereign debt crisis also weakened consumer confidence. Despite of the challenges, our garment manufacturing business continued to be steady in 2011 as we continue to focus in our below key areas.

Customer Profile and Product Range

Our customer profile encompasses global fashion brands to national department stores' labels. The Group offers a wide range of fashion products, ranging from men's and women's career wear to casual outerwear and sportswear. We have extensive capabilities in fabric design and sourcing, garment design, pattern and sample making, as well as the ability to innovate to meet our customers' needs through strong manufacturing engineering solutions.

Strong Customer Relationship

The Group maintains a strategy of key accounts management and has developed multi-products with our core global customers having worldwide sales. This strategy has broadened and strengthened our relationships with existing customers and continued to open up opportunities for new accounts. The Group has also strengthened its scope of services by offering garment design, fabric development and testing, and providing complete apparel solutions to its customers. To better serve our customers, we have sales/liaison offices in Hong Kong, Macau, Shanghai, Taipei, Kaohsiung, Seoul, New York and London. For many years, the Group received various awards from its customers in recognition of the strong business relationship and for the good performance of the Group.

Production and Technological Capabilities

Our factories' modern production process allowed us to serve wide product range while providing competitive cost base in various geographies: China in southern and eastern region, the Philippines, Thailand and Vietnam. The production facility located in the Hefei Economic & Technological Development Area in Anhui Province, China offers capacity expansion capabilities for the Group. In order to maintain the Group's competitiveness and mitigate the impact of continuous rising labour and manufacturing costs, innovative and advanced production technology and processes are continuing to be implemented to enhance factories' productivity and reduce manpower handling.

Corporate Social Responsibility and Environmental Considerations

As a socially responsible entity, the Group is committed to fostering long-term relationships with its shareholders, employees, customers and business partners. The Group recognises the importance of total Corporate Social Responsibility ("CSR") compliance to our customers. Total CSR compliance is a prerequisite for being a responsible supplier, and each year the requirements are becoming more stringent. With these responsibilities and values in mind, we strive to deliver the best possible services and products to our customers and will continue to uphold social compliance as a strategic priority.

All our work sites have taken actions to implement a consistent auditing and accountability process encompassing health, safety and environmental compliance to meet customers' demands for greater ethical and environmental responsibility.

The Group is committed to creating a sustainable and greener environment and continues to explore ways to reduce carbon emission, conserve energy and reduce wastage. Our eco-friendly "green" factory in Hefei was accredited with a LEED silver rating, a high level certification for energy efficiency and overall environmental impact awarded by the U.S. Green Building Council. The LEED accreditation certified that the green factory was designed and built using strategies including sustainable site, water efficiency, energy savings, low carbon emission, material and resources stewardship and indoor environmental quality. The green factory also earned acclaims from major customers and local environmental protection bodies in China.

We have also implemented various environmental efficient initiatives in our other factories, including energy efficient lighting, dual flush toilets and low flow fixtures, waste recycling system, water curtain air-conditioning as well as replacing traditional clutch motors with more energy efficient servo motors.

Human Resources

With many talented, experienced and dedicated staffs in our Group, we continue to focus on enhancing teamwork across functions and geographies. We shall maintain our best practices to become a leader in the industry in delivering speedy and flexible production solutions and quality services to our customers.

OUTLOOK

Recent economic data raises hope that the US economy is on a recovery path. However, the pace of recovery in the US is expected to be slow. This together with a probable eurozone recession, points to an uncertain trading environment. We are cautious about the outlook of our garment manufacturing business due to weak external demand. In addition, the Group's manufacturing business will continue to face challenges from labour shortage, surging labour costs and currency appreciation in the countries where our factories are located. In order to sustain our profitability, the Group will continue its stringent cost control measures and adopt a cautious approach in its operations and development strategies.

Looking ahead, the Group will integrate its resources to optimise and improve its business structure. We will continue to increase investment in our branded product distribution and retail business in China by increasing POS and expanding the brand portfolio for the long-term growth of the business. As a leading manufacturer on the garment manufacturing business, the Group has its competitive strengths in producing high quality and high value added products to meet and exceed customers' expectation. With our large-scale production facilities, talented professionals and skilled labour, we are confident that we shall be able to rise to the challenges ahead.

APPRECIATION

I would like to take this opportunity to thank all our customers and shareholders for their confidence, business and ongoing trust and support for the Group. I would also like to express my gratitude to my fellow Directors and the entire family of Tristate employees for their continuing dedication, professionalism and enthusiasm, which have made possible the satisfactory results.

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Hong Kong, 26 March 2012

In this Management Discussion and Analysis, we present the business review and a discussion on the financial performance of Tristate Holdings Limited and its subsidiaries (together, the "Group") for the year ended 31 December 2011.

BUSINESS REVIEW

For the year ended 31 December 2011, the Group recorded a substantial increase in profit attributable to equity holders of HK$249,766,000 as compared with HK$196,735,000 in 2010. This was attributable to strong growth in the branded product distribution, retail and trading segment with top line and bottom line increased by 49% and 74% respectively over 2010. The garment manufacturing segment had also made a steady profit contribution to the Group in 2011.

Total revenue of the Group for the year ended 31 December 2011 was HK$3,273,299,000 (2010: HK$3,035,219,000), representing an increase of 8% as compared with 2010.

Revenue from the branded product distribution, retail and trading segment was HK$982,218,000 when compared with HK$658,850,000 in 2010, representing a growth of 49%. The growth was attributable to the continuing increase in the number of franchised point of sales ("POS") in the People's Republic of China (the "PRC"). The number of POS of our licensed brands increased by over 200 during the year in different tiers of cities of the PRC, bringing the total number of POS over 600 in the PRC including Hong Kong and Macau by end of 2011.

Revenue generated from the garment manufacturing segment was slightly decreased to HK$2,291,081,000 as compared with HK$2,376,369,000 in 2010. However, by segmentation, in line with the Group's strategy, sales to higher margin global premium fashion brands in 2011 increased by over 10% as compared with 2010.

Geographically, sales to the United States of America (the "US"), the United Kingdom (the "UK") and the PRC accounted for 37% (2010: 46%), 20% (2010: 22%) and 32% (2010: 23%) respectively of the Group's total revenue. This was the result of the continuous expansion of our branded product distribution business in the PRC and the less reliance on the US market. Our garment manufacturing business is generally impacted by seasonality. Through partnering with key customers, the Group has managed to smooth out such effect to this segment.

Gross profit of the Group increased to HK$982,479,000 (2010: HK$799,199,000) with gross profit margin increased from 26% in 2010 to 30%. This was mainly attributable to the increase in the Group's revenue mix from branded product distribution, retail and trading segment which yielded higher gross profit. In the garment manufacturing segment, the increase in sales to higher margin global premium fashion brands had contributed to mitigate the impact of rising factory labour cost. Selling and distribution expenses increased by 20% mainly due to the net impact of increase in advertising and promotion and royalty expenses in supporting the growth of the branded product distribution, retail and trading segment, and the reduction in export freight charges within the garment manufacturing segment. The increase in staff cost, performance bonus and other administrative expenses due to business expansion of the branded product distribution, retail and trading segment resulted in a 9% rise in general and administrative expenses.

In early 2006, the Hong Kong Inland Revenue Department (the "HK IRD") initiated a tax audit on certain companies within the Group for the years of assessment from 1999/2000 (financial year ended 31 December 1999) to 2004/2005 (financial year ended 31 December 2004). The HK IRD has issued protective assessments to some of these companies for the years of assessment 1999/2000 to 2004/2005 in view of the statutory time bar. During the course of the tax audit, further protective assessments for subsequent years may be raised by the HK IRD with respect to these companies. Since the tax audit is ongoing, its outcome cannot be readily ascertained. Management has reviewed the situation and, after seeking necessary professional advice, considers that sufficient tax related provisions have been made in the consolidated financial statements.

DISPOSAL OF AN OVERSEAS SUBSIDIARY

During the year ended 31 December 2011, the Group disposed of an inactive overseas subsidiary incorporated in Laos to an independent third party at a consideration of US$1,830,000 (equivalent to HK$14,234,000) and realised a gain of HK$10,827,000.

SHANGHAI COMMERCIAL PROPERTY

The Shanghai Property acquired by the Group in 2010, with an aggregate gross floor area of approximately 4,120 square metres, is undergoing renovation and will accommodate the Group's various departments in Shanghai upon completion of renovation.

Saved as disclosed above, there were no material acquisitions or disposals of subsidiaries or associated companies during the year and up to the date of this Annual Report and no important events affecting the Group have occurred since 31 December 2011 and up to the date of this Annual Report.

FINANCIAL RESOURCES AND LIQUIDITY

During the year, the Group continued to maintain a healthy balance sheet and liquidity position. As at 31 December 2011, cash and bank balances amounted to HK$629,345,000 (2010: HK$460,003,000) which were mainly denominated in Renminbi and US dollars. Short-term bank borrowings of the Group amounted to HK$194,040,000 as at 31 December 2011 (2010: HK$189,833,000). Such borrowings were mainly denominated in US dollars and Hong Kong dollars. As at 31 December 2011, HK$137,458,000 (2010: HK$140,905,000) and HK$56,582,000 (2010: HK$48,928,000) of the short-term bank borrowings were interest bearing at fixed rates and floating rates, respectively. The Group maintained sufficient banking facilities and did not have any long-term bank borrowings outstanding as at 31 December 2011. As at 31 December 2011, banking facilities extended to the Group were not secured with the Group's assets (2010: pledging of bank deposits of HK$590,000 for certain foreign exchange facilities). As the Group did not have net borrowings as at 31 December 2011 and 2010, no information on gearing ratio as at these two dates is applicable.

Most of the Group's receipts and payments were denominated in US dollars, Hong Kong dollars, Renminbi and Euro. Management monitors the related foreign exchange risk exposure by entering into forward foreign exchange contracts. During the year ended 31 December 2011, the Group had forward foreign exchange contracts to hedge against the foreign exchange exposures arising from US dollars denominated processing income for factories in the PRC, Vietnam and the Philippines; Euro for payments to suppliers and Pound Sterling for service fees payment to a UK subsidiary.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

Except for the capital commitments described in Note 37 to the consolidated financial statements, there were no material capital commitments or contingent liabilities as at 31 December 2011 which would require a substantial use of the Group's present cash resources or external funding.

HUMAN RESOURCES

The Group had about 13,000 employees as at 31 December 2011 (2010: 14,000). Fair and competitive remuneration packages and benefits are offered to employees. Those employees with outstanding performance were also awarded discretionary bonuses and share options.

OUTLOOK

Looking ahead, the trading condition is not optimistic given a weak external demand and slow global growth. The recent economic data raises hope that the US economy is on a recovery path. However, the recovery is expected to be slow as consumers continue to lower debts. A eurozone recession is expected as many in the region are under pressure to restore fiscal health. Against the uncertain economic backdrop, we are cautious about the outlook of our garment manufacturing business. In addition, labour shortage, surging labour costs coupled with currency appreciation in the countries where our factories located, are still our ongoing challenges. We will strive to remain competitive in the garment manufacturing segment by focusing on our core customers, building up our design and development strength, managing our production efficiency and at the same time implementing stringent cost control.

The Group will adopt a cautious approach to expand its existing businesses and pursue new opportunities. Amid uncertain international markets, the China economy will continue to achieve year-on-year growth. We expect our PRC branded product distribution business will continue to be a key profit contributor to the Group. We will invest for the long-term growth of this business segment in the PRC by increasing POS and expanding the brand portfolio.

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board" or the "Directors") of Tristate Holdings Limited (the "Company") is committed to maintaining good corporate governance and recognises the importance of effective corporate governance, both internally and externally. Internally, it improves the Company's internal communications, enhances departments' efficiency, assets protection and speeds up management's decision making process. Externally, it strengthens the Company's competitiveness and increases confidence among shareholders, investors, customers and other stakeholders.

Throughout the year ended 31 December 2011, the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), except for the deviation from code provision A.2.1. Details of the deviation are set out in the following relevant paragraphs.

Included in this report is the information relating to corporate governance practices of the Company during the year ended 31 December 2011 and significant events after that date and up to the date of this report.

A. DIRECTORS

The Board

The Company is headed by an effective Board which assumes responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. The Directors take decisions objectively and in the interests of the Company and its subsidiaries (the "Group").

The Board meets regularly and Board meetings are held at least four times a year at quarterly intervals. Special Board meetings will also be held when necessary. Such Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of Directors. Accordingly, a regular meeting does not include the practice of obtaining Board consent through the circulation of written resolutions.

All Directors are given draft notice and agenda for regular Board meetings for comments and consideration and inclusion of any matters for deliberation at the meetings.

Dates of regular Board meetings are scheduled in the prior year to provide sufficient notice to give all Directors an opportunity to attend and formal notice of at least 14 days is given for each regular Board meeting. For all other Board meetings, reasonable notice will be given.

All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures and all applicable rules and regulations are followed.

Minutes of the meetings of the Board, the Audit Committee, the Remuneration Committee, the Share Option Committee and other special Board committees established for specific transaction purposes are kept by the Company Secretary. Such minutes are open for inspection at any reasonable time on reasonable notice by any Director.

Minutes of the meetings of the Board and Board committees record in sufficient detail the matters considered and decisions reached by the Board and Board committees, including any concerns raised by the Directors or dissenting views expressed. Draft and final versions of minutes of Board meetings are sent to all Directors for their comment and records respectively, in both cases within a reasonable time after the meeting is held.

The Directors, upon reasonable request, may seek independent professional advice at the Company's expense, to assist the discharge of their duties.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter would not be dealt with by way of circulation or by a committee (except an appropriate Board committee set up for that purpose pursuant to a resolution passed in a Board meeting) but a Board meeting would be held. The interested Directors are required to abstain from voting and would not be counted in the quorum. Independent Non-Executive Directors who, and whose associates, have no material interest in the transaction would be present at such Board meeting.

The Company has arranged directors' and officers' liability insurance in respect of any legal action against Directors.

Directors' attendance records

During the year ended 31 December 2011, four regular Board meetings have been held. The attendance of each Director at these Board meetings, Board committee meetings and the annual general meeting held in year 2011 (the "2011 AGM") is set out below:

	Number of meetings attended/held			
	Board	**Audit Committee**	**Remuneration Committee**	**2011 AGM**
Executive Director:				
Mr. WANG Kin Chung, Peter *(Chairman and CEO)*	4/4	N/A	2/2	1/1
Non-Executive Directors:				
Ms. WANG KOO Yik Chun *(Honorary Chairlady)*	3/4	N/A	N/A	0/1
Ms. MAK WANG Wing Yee, Winnie *(Chairlady of the Remuneration Committee)* *(member of the Audit Committee)*	4/4	3/3	2/2	1/1
Dr. WANG Shui Chung, Patrick	4/4	N/A	N/A	0/1
Independent Non-Executive Directors:				
Mr. LO Kai Yiu, Anthony *(Chairman of the Audit Committee)* *(member of the Remuneration Committee)*	4/4	3/3	2/2	1/1
Mr. James Christopher KRALIK *(member of the Audit Committee)* *(member of the Remuneration Committee)*	4/4	3/3	2/2	0/1
Mr. Peter TAN *(member of the Remuneration Committee)*	4/4	N/A	2/2	0/1

N/A: Not applicable

Chairman and Chief Executive Officer

There are two key aspects of the management of the Company – the management of the Board and the day-to-day management of the Company's business. Clear division of these responsibilities at the Board level is in place to ensure a balance of power and authority, so that power is not concentrated in any one individual.

During the year ended 31 December 2011 and up to the date of this report, Mr. WANG Kin Chung, Peter is the Chairman and the Chief Executive Officer ("CEO") of the Company, and that the functions of the Chairman and the CEO in the Company's strategic planning and development process overlap. These constitute a deviation from code provision A.2.1 of the Code which stipulates that the roles of the Chairman and the CEO should be separate and should not be performed by the same individual.

Mr. WANG Kin Chung, Peter has been with the Group since 1999 and has considerable experience in the garment industry. He provides leadership for the Board in leading, considering and setting the overall strategic planning and business development of the Group. Given the current size of the Group and its present stage of development, the Board considers that it is in the interests of the Group that Mr. WANG Kin Chung, Peter holds both the offices of the Chairman and the CEO so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is capable to guide discussions and brief the Board in a timely manner on key issues and developments.

Given that there is a balanced Board with more than one-third of the number of its members being Independent Non-Executive Directors, the Board is of the view that there is a strong independent element in the Board to exercise independent judgement and provide sufficient check and balance.

The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings and is responsible for ensuring that Directors receive adequate, complete and reliable information in a timely manner.

Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company and a Non-Executive Director, is the mother of Mr. WANG Kin Chung, Peter (the Chairman and the CEO), Ms. MAK WANG Wing Yee, Winnie (Non-Executive Director) and Dr. WANG Shui Chung, Patrick (Non-Executive Director).

Board composition

The Board currently comprises one Executive Director, Mr. WANG Kin Chung, Peter, who is also the Chairman and the CEO; three Non-Executive Directors, namely Ms. WANG KOO Yik Chun, Ms. MAK WANG Wing Yee, Winnie and Dr. WANG Shui Chung, Patrick; and three Independent Non-Executive Directors, namely Mr. LO Kai Yiu, Anthony, Mr. James Christopher KRALIK and Mr. Peter TAN. Biographies of the Directors are set out in the "Directors' and Senior Management's Profile" section of this Annual Report.

The Board has a balance of skills and experience appropriate for the requirements of the business of the Group. Changes to its composition can be managed without undue disruption. With more than one-third of the number of its members being Independent Non-Executive Directors, there is a strong independent element in the Board, which can effectively exercise independent judgement.

All Directors are expressly identified by category of Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in all corporate communications that disclose the names of Directors of the Company.

The Company has received from each of the three Independent Non-Executive Directors an annual confirmation of his independence and considers that each of the Independent Non-Executive Directors is independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules.

The Company maintains on its website an updated list of its Directors identifying their role and function.

Appointments, re-election and removal

The Board is responsible for considering the suitability of individuals to act as a Director, and approving or terminating the appointments. The Company has not established any nomination committee and would not consider establishing a nomination committee owing to the small size of the Board.

The Chairman of the Board is responsible for identifying suitable candidates to fill Board membership whenever a vacancy arises or as an additional Director. He will put forward the qualified candidates to the Board for consideration. The Board will approve the appointment based on the candidates' qualifications, business experience and suitability to the Company.

In addition, in accordance with Bye-Law 90 of the bye-laws of the Company (the "Bye-Laws"), a shareholder of the Company may propose a person for election as a Director by lodging at the registered office of the Company or branch registrar and transfer office or the head office of the Company, a notice in writing signed by such shareholder (other than the person to be proposed), and also a notice in writing signed by the person to be proposed of his willingness to be elected. Such notice(s) must state the full name of the person proposed for election as a Director and include such person's biographical details as required by Rule 13.51(2) of the Listing Rules. The period for lodgement of such notices shall commence on (and include) the day after the date of despatch of the notice convening the general meeting appointed to consider such proposal and end on (and exclude) the date that is seven days before the date of such general meeting. Upon receipt of such notices, the Board will consider the suitability of the said person as a Director and will make recommendation to the shareholders of the Company for their consideration.

Non-Executive Directors (including Independent Non-Executive Directors) are appointed for a specific term, subject to re-election.

The term of appointment of all Non-Executive Directors (including Independent Non-Executive Directors) is fixed for a term of three years commencing 1 January 2011, subject to earlier determination in accordance with the Bye-Laws and/or applicable laws and regulations.

All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment. All Directors of the Company (save for any executive chairman and any managing director) shall be subject to retirement by rotation at least once every three years and that a Director may voluntarily retire. A retiring Director shall be eligible for re-election.

Accordingly, at the forthcoming annual general meeting of the Company to be held on 11 June 2012 (the "2012 AGM"), Mr. WANG Kin Chung, Peter will voluntarily retire for the purpose of compliance with code provision A.4.2 of the Code, and Dr. WANG Shui Chung, Patrick and Mr. LO Kai Yiu, Anthony will retire by rotation and, being eligible, offer themselves for re-election as Directors in accordance with the Bye-Laws.

The Board has assessed the independence of Mr. LO Kai Yiu, Anthony who has been Independent Non-Executive Director of the Company for more than nine years and considers that he continues to be independent, notwithstanding the length of his tenure, in accordance with the guidelines of independence as set out in Rule 3.13 of the Listing Rules. The re-election of Mr. LO Kai Yiu, Anthony as Independent Non-Executive Director will be subject to a separate resolution to be approved by shareholders at the 2012 AGM.

Particulars of the aforesaid retiring Directors and the recommendation of the Board for their re-election are set out in a circular (the "Circular") of the Company to be despatched to shareholders together with this Annual Report.

Responsibilities of directors

Every Director is required to keep abreast of his/her responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. Given the essential unitary nature of the Board, the Non-Executive Directors have the same duties of care and skill and fiduciary duties as the Executive Director.

Directors are provided with the relevant guidelines on directors' duties issued by the Hong Kong Companies Registry and continuous updates on the latest changes or material development in statues, the Listing Rules, corporate governance practices etc.

Every newly appointed Director of the Company would receive a comprehensive and tailored induction upon his appointment. The Company would conduct subsequent briefing as is necessary, to ensure that the newly appointed Director has a proper understanding of the operations and business of the Group and that he is fully aware of his responsibilities under statutes, the Listing Rules and other applicable legal and regulatory requirements.

The functions of Non-Executive Directors include those functions specified in code provisions A.5.2(a) to (d) of the Code.

Every Director is aware that he/she should give sufficient time and attention to the affairs of the Company.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2011.

In addition, the Board has formally adopted the Model Code as guidelines for relevant employees in respect of their dealings in the securities of the Company.

Supply of and access to information

Directors are provided in a timely manner with appropriate information that enables them to make an informed decision and to discharge their duties and responsibilities as Directors of the Company.

In respect of regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying Board papers are sent in full to all Directors in a timely manner and at least three days before the intended date of a Board or Board committee meeting.

The management of the Group (the "Management") is aware that it has an obligation to supply the Board and its committees with adequate information in a timely manner to enable them to make informed decisions. The information supplied is complete and reliable. The Board and each Director have separate and independent access to the Company's senior Management.

All Directors are entitled to have access to Board papers and related materials. Where queries are raised by the Directors, the Management shall take steps to respond as promptly and fully as possible.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The level and make-up of remuneration and disclosure

The Company has established a Remuneration Committee with specific written terms of reference which deal clearly with its authority and duties.

The Remuneration Committee is responsible for making recommendations to the Board regarding the Company's remuneration policy and for the formulation and review of the specific remuneration packages of Directors and senior Management. No Director is involved in deciding his/her own remuneration.

A majority of the members of the Remuneration Committee are Independent Non-Executive Directors. During the year ended 31 December 2011 and up to the date of this report, the members of the Remuneration Committee are:

Non-Executive Director:
Ms. MAK WANG Wing Yee, Winnie

Independent Non-Executive Directors:
Mr. LO Kai Yiu, Anthony
Mr. James Christopher KRALIK
Mr. Peter TAN

Ms. MAK WANG Wing Yee, Winnie is the Chairlady of the Remuneration Committee. In order to comply with the forthcoming amendments to the Listing Rules which will be effective on 1 April 2012, Mr. James Christopher KRALIK, an Independent Non-Executive Director, will be appointed as Chairman of the Remuneration Committee in place of Ms. MAK WANG Wing Yee, Winnie with effect from 1 April 2012. Ms. MAK WANG Wing Yee, Winnie will remain as a member of the Remuneration Committee.

The terms of reference of the Remuneration Committee have included the specific duties set out in code provisions B.1.3(a) to (f) of the Code, with appropriate modifications where necessary.

The Remuneration Committee has made available its terms of reference, explaining its role and the authority delegated to it by the Board, on the Company's website.

The Remuneration Committee is provided with sufficient resources to discharge its duties and has access to professional advice if considered necessary.

The emoluments payable to the Directors are determined at arm's length on the basis of the responsibilities involved, time devoted, current financial position of the Company and the prevailing market conditions. At the 2011 AGM, the shareholders approved the authorisation of the Directors to fix their remuneration.

The policy adopted for the remuneration of the Non-Executive Directors commencing 1 January 2011 is set out below:

(i) Annual director's fee for each Non-Executive Director HK$30,000

(ii) Meeting attendance fees for each Non-Executive Director

	Column A (As Chairman/ Chairlady) *(Note 1)*	Column B (As participating member) *(Note 2)*
Fee for attending each Board meeting	HK$12,500	HK$12,500
Fee for attending each Audit Committee meeting	HK$25,000	HK$12,500
Fee for attending each Remuneration Committee meeting	HK$7,500	HK$7,500
Fee for attending each Board committee meeting	HK$20,000	HK$10,000
Fee for attending each independent Board committee meeting	HK$20,000	HK$10,000
Fee for attending each Share Option Committee meeting	HK$5,000	HK$5,000

Notes:

1. If a Director acts as the Chairman/Chairlady at the relevant meeting, he/she will be entitled to the fee set out under column A only.

2. If a Director participates in the relevant meeting as a participating member (but he/she does not act as the Chairman/Chairlady), he/she will be entitled to the fee set out in column B only.

The attendance of each member at the Remuneration Committee meetings held during the year ended 31 December 2011 is set out in the "Directors' attendance records" section of this report.

During the year ended 31 December 2011, the Remuneration Committee held two meetings and the work performed is set out below:

(i) reviewed and approved the remuneration packages of the Directors and senior Management;

(ii) reviewed and approved the recommendation to the Board on the grant of share options; and

(iii) reviewed and commented on a report on the proposed new human resources structure and compensation system.

At the Board Meeting of the Company held on 26 March 2012, the Board approved the recommendation of the Remuneration Committee for revision of the aforesaid remuneration policy of the Non-Executive Directors with effect from 1 January 2012 as set out below:

(i) Annual director's fee for each Non-Executive Director HK$45,000

(ii) Meeting attendance fees for each Non-Executive Director

	Column A (As Chairman/ Chairlady) *(Note 1)*	Column B (As participating member) *(Note 2)*
Fee for attending each Board meeting	HK$18,750	HK$18,750
Fee for attending each Audit Committee meeting	HK$37,500	HK$18,750
Fee for attending each Remuneration Committee meeting	HK$11,250	HK$11,250
Fee for attending each Board committee meeting	HK$30,000	HK$15,000
Fee for attending each independent Board committee meeting	HK$30,000	HK$15,000
Fee for attending each Share Option Committee meeting	HK$7,500	HK$7,500

Notes:

1. If a Director acts as the Chairman/Chairlady at the relevant meeting, he/she will be entitled to the fee set out under column A only.

2. If a Director participates in the relevant meeting as a participating member (but he/she does not act as the Chairman/Chairlady), he/she will be entitled to the fee set out in column B only.

C. ACCOUNTABILITY AND AUDIT

Financial reporting

It is the responsibility of the Board to present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.

The Management should provide such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge that they are responsible for preparing the accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the results and cash flow for the year then ended. In preparing the accounts for the year ended 31 December 2011, the Directors have:

(i) selected appropriate accounting policies and applied them consistently;

(ii) made judgements and estimates that are prudent and reasonable; and

(iii) prepared the accounts on a going concern basis.

A statement by the Auditor about their reporting responsibilities is included in the Independent Auditor's Report on page 36.

The Board would present a balanced, clear and understandable assessment to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

Internal controls

It is the responsibility of the Board to ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investment and the Company's assets.

During the year ended 31 December 2011, the Board, through the Audit Committee, carried out its annual review of the effectiveness of the system of internal controls applicable to the Group's major activities, covering all material controls, including financial, operational and compliance controls and risk management functions. Both the Board and the Audit Committee have reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

Audit Committee

It is the responsibility of the Board to establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's Auditor.

The Company has established an Audit Committee with specific written terms of reference which deal clearly with its authority and duties.

The Audit Committee is responsible for reviewing the financial information of the Company and overseeing the Company's financial reporting system and internal control procedures.

A majority of the members of the Audit Committee are Independent Non-Executive Directors. During the year ended 31 December 2011 and up to the date of this report, the members of the Audit Committee are:

Non-Executive Director:
Ms. MAK WANG Wing Yee, Winnie

Independent Non-Executive Directors:
Mr. LO Kai Yiu, Anthony
Mr. James Christopher KRALIK

Mr. LO Kai Yiu, Anthony is the Chairman of the Audit Committee and has the professional qualifications and accounting and related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

None of the three Audit Committee members is a former partner of the Company's external auditor.

Full minutes of the Audit Committee meetings are kept by the Company Secretary as secretary of the Audit Committee. Draft and final versions of minutes of the Audit Committee meetings are sent to all members of the Audit Committee for their comment and records within a reasonable time after the meeting.

The terms of reference of the Audit Committee have included the specific duties set out in code provisions C3.3(a) to (n) of the Code, with appropriate modifications where necessary.

The Audit Committee has made available its terms of reference, explaining its role and the authority delegated to it by the Board, on the Company's website.

The Board agrees with the Audit Committee's proposal for the re-appointment of PricewaterhouseCoopers ("PwC") as the Company's external auditor for 2012. The recommendation will be presented for the approval of shareholders at the 2012 AGM.

The Audit Committee is provided with sufficient resources, including access to independent professional advice, at the Company's expenses, if it considers necessary to discharge its duties.

The attendance of each member at the Audit Committee meetings held during the year ended 31 December 2011 is set out in the "Directors' attendance records" section of this report.

During the year ended 31 December 2011, the Audit Committee held three meetings and the work performed is set out below:

(i) reviewed the 2011 annual budget;

(ii) reviewed the draft annual report and audited financial statements of the Group for the year ended 31 December 2010 and recommended the same to the Board for approval;

(iii) made recommendation to the Board on the appointment of the external auditor at the 2011 AGM and considered the proposed external auditor's remuneration;

(iv) reviewed the draft interim report and unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2011 and recommended the same to the Board for approval;

(v) reviewed the audit service plan from the external auditor, reviewed their independence and discussed with them the nature and scope of audit for the year ended 31 December 2011 and their reporting obligations, considered and approved their terms of engagement;

(vi) reviewed the report on the annual review of internal control system, risk assessment and periodic internal audit reports; and

(vii) reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

Auditors' remuneration

In 2011, remunerations paid to PwC, the Company's external auditor, and its associates in respect of audit and non-audit services provided to the Group are set out below:

	2011 ***HK$'000***
Annual audit fees	**4,215**
Tax services fees	**1,439**
Other services fees	**411**
Total	**6,065**

D. DELEGATION BY THE BOARD

Management functions

The Company has a formal schedule of matters specifically reserved to the Board for its decision. The Board has given clear directions to the Management as to the matters that must be approved by the Board before decisions are made on behalf of the Company.

When the Board delegates aspects of its management and administration functions to the Management, it has given clear directions as to the powers of the Management, in particular, with respect to the circumstances where the Management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

The Board is mainly responsible for setting and approving the Company's strategic direction and planning all important matters including the preparation of interim and annual results (including the determination of dividends), annual financial budget and business and operation plans. In addition, each member of the Board is expected to make a full and active contribution to the Board's affairs and ensure that the Board acts in the best interests of the Company and its shareholders as a whole.

Matters explicitly reserved for the Board's decision include, amongst other things, (i) the size, composition, structure and role of the Board and the Board committees, (ii) the suitability of any individual as a member of the Board or the Board committee, (iii) the appointment and removal of the CEO, and (iv) monitoring the performance of the CEO to ensure the Group is in alignment with its strategic direction. Responsibility for delivering the Company's objectives and running the business on a day-to-day basis is delegated to the senior Management.

Board committees

Board committees would be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

Where Board committees are established to deal with matters, the Board would prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.

Apart from the Audit Committee (particulars are disclosed under section C of this report) and the Remuneration Committee (particulars are disclosed under section B of this report), the Board has also established a Share Option Committee which comprises an Executive Director and a Non-Executive Director to deal with all such matters arising in connection with the administration of the share option scheme of the Company.

The terms of reference of the Audit Committee, the Remuneration Committee and the Share Option Committee require such Committees to report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

E. COMMUNICATION WITH SHAREHOLDERS

Effective communication

The Board endeavours to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

At the 2011 AGM:

(i) A separate resolution was proposed by the Chairman of the meeting in respect of each separate issue, including the re-election of Directors;

(ii) The Chairman of the Board, the Chairman of the Audit Committee and the Chairlady of the Remuneration Committee attended to answer questions of the shareholders;

(iii) The Chairman of the meeting demanded poll on all resolutions; and

(iv) Computershare Hong Kong Investor Services Limited, the Company's branch registrar and transfer office, was engaged as scrutineer for the vote-taking.

The notice of the 2012 AGM will be sent to shareholders at least 20 clear business days before the meeting. Please refer to the Circular for further details.

Voting by Poll

It was properly explained at the commencement of the 2011 AGM the procedures for conducting a poll.

At the 2012 AGM, the Chairman of the meeting will demand a poll on all the resolutions in accordance with the requirements of the Listing Rules. The poll results will be posted on the websites of the Stock Exchange and the Company on the same day of the 2012 AGM.

Shareholders rights and investor relations

The Company values communication with shareholders and investors. Enquiries and suggestions from shareholders or investors are welcomed through the following channels to the Company Secretary:

(i) By mail to the Company's head office at 5th Floor, 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong;

(ii) By telephone at (852) 2279-3888;

(iii) By fax at (852) 2423-5576; or

(iv) By e-mail to cosec@tristateww.com.

The Board resolved that the 2012 AGM will be held at Room 5A, 5th Floor, 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong on Monday, 11 June 2012 at 10:00 a.m. The notice of the 2012 AGM will be sent to all shareholders separately. The Chairman of the Board together with the Chairman of the Audit Committee and the Chairman of the Remuneration Committee or their delegates will attend the 2012 AGM to answer questions from the shareholders.

The important dates to shareholders in year 2012 are as follows:

Book close dates for determining eligibility to attend and vote at the 2012 AGM:	Friday, 8 June 2012 to Monday, 11 June 2012, both days inclusive
2012 AGM:	Monday, 11 June 2012
Book close dates for determining entitlement to the proposed final dividend:	Friday, 15 June 2012 to Monday, 18 June 2012, both days inclusive
Expected payment date of proposed final dividend:	Monday, 25 June 2012

On behalf of the Board

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Hong Kong, 26 March 2012

DIRECTORS

Executive Director

Mr. WANG Kin Chung, Peter, *BSc, MBA*, aged 58, became the Company's President and Chief Executive Officer in 1999 and redesignated as the Chairman and Chief Executive Officer of the Company since 2001. He is also the Chairman of the Share Option Committee of the Company and a director of certain subsidiaries of the Company. Mr. Wang has more than 28 years' experience in the garment industry and is responsible for the overall strategic planning and business development of the Company. Mr. Wang obtained a BSc degree in Industrial Engineering from Purdue University in Indiana, USA and an MBA degree from Boston University, USA. He is a non-executive director and a member of the audit committee of Johnson Electric Holdings Limited and the chairman and managing director of Hua Thai Manufacturing Public Company Limited (formerly listed on The Stock Exchange of Thailand). Mr. Wang won the Young Industrialist Award of Hong Kong in 1998. In 2005, he received the Outstanding Industrial Engineer Award from the School of Industrial Engineering of Purdue University. He is a member of Anhui Provincial Committee of Chinese People's Political Consultative Conference, the honorary chairman of the Hong Kong Garment Manufacturers Association, a general committee member of the Textile Council of Hong Kong Limited and a director of The Federation of Hong Kong Garment Manufacturers. Mr. Wang is a son of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company and a brother of Ms. MAK WANG Wing Yee, Winnie and Dr. WANG Shui Chung, Patrick, Directors of the Company. He is a director of Silver Tree Holdings Inc. which is a substantial shareholder of the Company as disclosed in the "Substantial Shareholders" section of the Report of the Directors.

Non-Executive Directors

Ms. WANG KOO Yik Chun, aged 94, became Co-chairlady and Honorary Co-chairlady in 1999 and 2001 respectively and then redesignated as the Honorary Chairlady of the Company since 2002. She is the founder of Hwa Fuh Manufacturing Company (Hong Kong) Limited and its subsidiaries. She is also the honorary chairlady and a non-executive director of Johnson Electric Holdings Limited, a former director of Hua Thai Manufacturing Public Company Limited (formerly listed on The Stock Exchange of Thailand), and a director of certain subsidiaries of the Company. Ms. Koo is the mother of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, Dr. WANG Shui Chung, Patrick and Ms. MAK WANG Wing Yee, Winnie, Directors of the Company.

Ms. MAK WANG Wing Yee, Winnie, *BSc*, aged 65, obtained her BSc degree from Ohio University, USA and became a Non-Executive Director of the Company in April 1999. She is also the Chairlady of the Remuneration Committee, a member of the Audit Committee and a member of the Share Option Committee of the Company. Ms. Wang will step down as the Chairlady but remain as a member of the Remuneration Committee of the Company with effect from 1 April 2012. Ms. Wang is a director of two subsidiaries of the Company. She is also the vice chairman of Johnson Electric Holdings Limited. Ms. Wang is a daughter of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company, and a sister of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, and Dr. WANG Shui Chung, Patrick, a Director of the Company.

Dr. WANG Shui Chung, Patrick, *JP, BSc, MSc*, aged 61, obtained his BSc and MSc degrees in Electrical Engineering and received an Honorary Doctorate of Engineering from Purdue University in Indiana, USA. He became a Non-Executive Director of the Company in April 1999 and is a director of a subsidiary of the Company. Dr. Wang is the chairman and chief executive of Johnson Electric Holdings Limited, a non-executive director of The Hongkong and Shanghai Banking Corporation Limited and VTech Holdings Limited. He is the chairman of the Hong Kong Applied Science and Technology Research Institute Company Limited. Dr. Wang is a son of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company, and a brother of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, and Ms. MAK WANG Wing Yee, Winnie, a Director of the Company.

Independent Non-Executive Directors

Mr. LO Kai Yiu, Anthony, aged 63, joined the Company in June 1998 as an Independent Non-Executive Director. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Lo is qualified as a chartered accountant with the Canadian Institute of Chartered Accountants and is a member of the Hong Kong Institute of Certified Public Accountants. In addition to over 8 years of professional accounting experience, he has over 30 years of experience in investment banking and other financial services. He is the chairman of Shanghai Century Capital Limited and serves as an independent non-executive director of a number of listed public companies, including Convenience Retail Asia Limited, IDT International Limited, Lam Soon (Hong Kong) Limited, Playmates Holdings Limited, The Taiwan Fund, Inc. and Mecox Lane Limited.

Mr. James Christopher KRALIK, aged 46, was appointed as an Independent Non-Executive Director of the Company in April 2002. He is also a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Kralik will be appointed as the Chairman of the Remuneration Committee of the Company with effect from 1 April 2012. Mr. Kralik is the managing director of Linden Street Capital Limited, a privately held investment company focused on Greater China-based investment opportunities. He previously served as the chief executive officer of VTech Telecommunications Limited, built and led a Hong Kong-based group of media and entertainment businesses, and was a management consultant with McKinsey & Company, Inc. Mr. Kralik is a graduate of Harvard College and the Harvard Business School.

Mr. Peter TAN, aged 56, was appointed as an Independent Non-Executive Director and a member of the Remuneration Committee of the Company in January 2011. Mr. Tan was executive vice president and chief executive officer of Asia Pacific division of Burger King Corporation. Mr. Tan has more than 16 years' experience in the fast food industry. Before joining Burger King Corporation in 2005, Mr. Tan has served McDonald's Corporation for 10 years and was senior vice president and president of its Greater China division, responsible for strategic growth of the business and management of all key functions in the region. Prior to that, Mr. Tan was vice president of CitiBank Singapore, Private Banking Group. He holds a BA degree in Accounting and Finance from the Washington State University, an MBA degree from the Kellogg School of Management at Northwestern University and is co-chairman of the Kellogg Alumni Council (Asia).

SENIOR MANAGEMENT

Ms. AU King Lun, Paulina, *BA, MAppFin*, aged 42, joined the Company in August 2011 as the Chief Financial Officer and Company Secretary. She holds a bachelor degree in accountancy from The City University of Hong Kong and a master degree in applied finance from Macquarie University, Australia. She is a member of the Hong Kong Institute of Certified Public Accountants. In addition to over 5 years of professional accounting experience, Ms. Au has over 10 years of experience in finance and accounting in companies listed in the United States of America and Hong Kong.

Mr. Joshua Bruce PERLMAN, *BS*, aged 42, joined the Company in 2003 as Managing Director of the Retail and Wholesale division of the Company's wholly-owned subsidiary, 338 Fashion Co. Limited and was appointed as a director of 338 Fashion Co. Limited in 2005. 338 Fashion Co. Limited is the exclusive licensee for Nautica and Jack Wolfskin in the China, Hong Kong, and Macau markets, as well as the Lincs brand in China. Mr. Perlman has over 18 years of experience in China working with renowned consumer lifestyle brands. A graduate of both Tulane University and the Johns Hopkins University Center for Chinese and American Studies in Nanjing, Mr. Perlman is a native of New York City, USA, and is fluent in Mandarin, Chinese.

Ms. MA Jingyan, Jane, *MBA*, aged 39, joined the Company in 2001 and is currently the Managing Director of one of the Contract Manufacturing Business Units of the Group. She holds a master degree in business administration from Fordham University, New York. Ms. Ma has over 10 years of experience in the garment industry primarily on the marketing, sales and product development side for both UK and USA markets.

Ms. ZHANG Xiaofang, Phyllis, *MBA*, aged 38, joined the Company in 2002 as General Manager of the Company's subsidiary, Chochuen Garment (Shenzhen) Co., Ltd. She contributed to the establishment of the production compound in Hefei in 2007 and was responsible for the establishment of Tristate Management University of the Group in 2010. Ms. Zhang was appointed as Managing Director of the Shanghai division of two subsidiaries, 338 Apparel Limited in 2011 and Velmore Limited in 2012. Ms. Zhang holds a master degree in business administration from Peking University and has over 10 years of management experience in the garment industry.

The board of directors (the "Board") of Tristate Holdings Limited (the "Company") presents its report together with the audited financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are (i) garment manufacturing, and (ii) branded product distribution, retail and trading.

An analysis of the Group's revenue and contribution to profit for the year by segment is set out in Note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement on page 37.

An interim dividend of HK$0.15 per share for the six months ended 30 June 2011 amounting to HK$40,440,000 (2010: HK$0.06 per share, amounting to HK$16,124,000) was paid on 3 October 2011.

The Board recommends the payment of a final dividend of HK$0.22 per share, totalling HK$59,454,000 for the year ended 31 December 2011 (2010: HK$0.24 per share, totalling HK$64,496,000).

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on Monday, 11 June 2012 (the "2012 AGM"), is expected to be paid on Monday, 25 June 2012 to the shareholders of the Company whose names appear on the register of members of the Company on Monday, 18 June 2012, and for the purpose of determining the entitlements of the shareholders to the proposed final dividend, the register of members of the Company will be closed from Friday, 15 June 2012 to Monday, 18 June 2012, both days inclusive.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2011 is set out on page 3.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 15 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2011 are set out in Note 18 to the consolidated financial statements.

ASSOCIATES

Particulars of the Group's interests in associates are set out in Note 21 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 34 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 35 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the reserves of the Company amounted to HK$443,180,000 (2010: HK$440,270,000) and retained earnings amounted to HK$191,745,000 (2010: HK$197,223,000); of which HK$622,765,000 (2010: HK$628,243,000) were available for distribution to equity holders of the Company as calculated in accordance with the Companies Act 1981 of Bermuda.

SHARE OPTIONS

The current share option scheme (the "2007 Share Option Scheme") was adopted by the Board on 2 April 2007 and was approved by the shareholders of the Company at the annual general meeting held on 6 June 2007 for granting of options to eligible persons to subscribe for shares of the Company.

The principal terms of the 2007 Share Option Scheme are summarised below:

Purpose	:	To attract and motivate high quality employees and officers of the members of the Group, to provide the participants who have been granted options under the 2007 Share Option Scheme to subscribe for shares of the Company with the opportunity to acquire proprietary interests in the Company, to encourage participants to work towards achieving certain performance targets in order to enhance the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, and to retain participants who achieve such performance targets.
Participants	:	The employees and officers of any member (from time to time) of the Group including, without limitation, directors, senior vice presidents, factory general managers, vice presidents and other full-time employees of any member of the Group as determined by the Board from time to time.
Total number of shares available for issue and the percentage of the issued share capital that it represents as at the date of this report	:	26,873,525 shares representing 9.94% of the issued share capital of the Company as at the date of this report.
Maximum entitlement of each participant	:	Not exceeding 1% of the shares of the Company in issue in any 12 months period.
Period within which the shares must be taken up under an option	:	The period within which the options must be exercised will be specified by the Board at the time of grant. This period must expire no later than ten years from the relevant date of grant.
Minimum period for which an option must be held before it can be exercised	:	At the time of grant of the options, the Board may specify any minimum period(s) for which an option must be held before it can be exercised. The 2007 Share Option Scheme does not contain any such minimum period.
Amount payable on acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	:	HK$1.00 (or its equivalent), to be paid within ten business days from the date on which the letter containing the offer is issued to that participant.

Basis of determining the exercise price	:	The subscription price for the shares which are the subject of the options shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheet issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price will be determined by the Board at the time the option is offered to the participant.
Remaining life of the 2007 Share Option Scheme	:	No options may be granted under the 2007 Share Option Scheme on or after the date of the tenth anniversary of the adoption of the 2007 Share Option Scheme.

Movement in the share options granted under the 2007 Share Option Scheme during the year and outstanding as at 31 December 2011 were as follows:

		Number of share options					
Date of grant	**Participant**	**At 01/01/2011**	**Granted during the year**	**Exercised during the year**	**At 31/12/2011**	**Exercise price per share**	**Exercisable period**
02/07/2008	Employees (in aggregate)	174,000	–	(89,000) *(Note 5)*	**85,000**	HK$1.86	02/07/2008 – 01/07/2013
		174,000	–	(89,000) *(Note 5)*	**85,000**	HK$1.86	02/07/2009 – 01/07/2013
		174,000	–	(89,000) *(Note 5)*	**85,000**	HK$1.86	02/07/2010 – 01/07/2013
		174,000	–	(89,000) *(Note 5)*	**85,000**	HK$1.86	02/07/2011 – 01/07/2013
14/09/2009	Employees (in aggregate)	326,000	–	(326,000) *(Note 6)*	**–**	HK$1.45	14/09/2009 – 13/09/2014
		326,000	–	(326,000) *(Note 6)*	**–**	HK$1.45	14/09/2010 – 13/09/2014
		326,000	–	(120,000) *(Note 7)*	**206,000**	HK$1.45	14/09/2011 – 13/09/2014
		326,000	–	–	**326,000**	HK$1.45	14/09/2012 – 13/09/2014
21/06/2010	Employees (in aggregate)	239,000	–	(117,000) *(Note 8)*	**122,000** *(Note 9)*	HK$1.90	21/06/2010 – 20/06/2015
		239,000	–	(117,000) *(Note 10)*	**122,000** *(Note 9)*	HK$1.90	21/06/2011 – 20/06/2015
		239,000	–	–	**239,000**	HK$1.90	21/06/2012 – 20/06/2015
		239,000	–	–	**239,000**	HK$1.90	21/06/2013 – 20/06/2015

Date of grant	Participant	Number of share options At 01/01/2011	Granted during the year	Exercised during the year	At 31/12/2011	Exercise price per share	Exercisable period
13/06/2011 *(Notes 2, 3)*	Employees (in aggregate)	–	143,000	(38,000) *(Note 11)*	**105,000**	HK$4.01	13/06/2011 – 12/06/2016
		–	143,000	–	**143,000**	HK$4.01	13/06/2012 – 12/06/2016
		–	143,000	–	**143,000**	HK$4.01	13/06/2013 – 12/06/2016
		–	143,000	–	**143,000**	HK$4.01	13/06/2014 – 12/06/2016
	Total	2,956,000	572,000	(1,400,000)	**2,128,000**		

Notes:

1. The above options vest in four equal tranches over a period of three years from the relevant date of grant.
2. The Company received a total consideration of HK$5.00 from the grantees for the options granted during the year.
3. The closing price of the shares of the Company on 10 June 2011, i.e. the business day immediately before the date on which the options were granted during the year, as quoted on the Stock Exchange, was HK$4.00.
4. No options had been cancelled or lapsed during the year.
5. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK$4.39.
6. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK$3.89.
7. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK$3.95.
8. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK$3.04.
9. Exercise notice in respect of 56,000 shares for each of the two tranches had been tendered by an option holder before 31 December 2011. The closing price of the shares immediately before the date of the exercise notice was HK$3.95. The relevant 112,000 shares were issued by the Company on 9 January 2012.
10. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK$4.06.
11. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK$4.12.

Other details of the share options granted under the 2007 Share Option Scheme are set out in Note 36 to the consolidated financial statements.

BANK BORROWINGS

Details of the bank borrowings of the Group are set out in Note 29 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$145,000.

DIRECTORS

The directors of the Company (the "Directors") who held office during the year and up to the date of this report are:

Executive Director:
Mr. WANG Kin Chung, Peter
(Chairman and Chief Executive Officer)

Non-Executive Directors:
Ms. WANG KOO Yik Chun
(Honorary Chairlady)
Ms. MAK WANG Wing Yee, Winnie
Dr. WANG Shui Chung, Patrick

Independent Non-Executive Directors:
Mr. LO Kai Yiu, Anthony
Mr. James Christopher KRALIK
Mr. Peter TAN

For compliance with code provision A.4.2 set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and in accordance with Bye-Laws 85 and 86 of the Company's Bye-Laws, Mr. WANG Kin Chung, Peter will voluntarily retire and Dr. WANG Shui Chung, Patrick and Mr. LO Kai Yiu, Anthony will retire by rotation and, being eligible, offer themselves for re-election as Directors at the 2012 AGM.

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of his independence and considers that each of the Independent Non-Executive Directors is independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and the senior management of the Group as at the date of this report are set out on pages 23 to 25.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2011, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 of the Listing Rules, were as follows:

Interests in shares of the Company

		Number of shares held			
Name of Director	**Long/short position**	**Through spouse or minor children**	**Through controlled corporation(s)**	**Total**	**Approximate percentage of issued share capital**
Mr. WANG Kin Chung, Peter	Long position	3,385,000 *(Note 1)*	182,442,000 *(Note 2)*	185,827,000	68.79%

Interests in shares of Hua Thai Manufacturing Public Company Limited ("Hua Thai")

Name of Director	Long/short position	Class	Number of shares held: Through spouse or minor children	Total	Approximate percentage of issued share capital
Ms. WANG KOO Yik Chun	Long position	Ordinary share	2,500 *(Note 3)*	2,500	0.03%

Notes:

1. 3,385,000 shares were beneficially owned by Ms. Daisy TING, the spouse of Mr. WANG Kin Chung, Peter.

2. 182,442,000 shares were beneficially owned by Silver Tree Holdings Inc., a company wholly owned by Mr. WANG Kin Chung, Peter.

3. 2,500 shares in Hua Thai were held by the late Mr. WANG Seng Liang, the spouse of Ms. WANG KOO Yik Chun.

Save as disclosed above, as at 31 December 2011, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the "Share Options" section in this report and in Note 36 to the consolidated financial statements, at no time during the year was the Company, its subsidiaries, its holding company or the subsidiaries of its holding company, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the 2012 AGM has a service contract with the Group, which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Continuing Connected Transactions" in this report, no contract of significance to which the Company or any of its subsidiaries was a party and in which any of the Company's Director or controlling shareholder or its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year ended 31 December 2011, none of the Directors have any interest in business apart from the Group's businesses which competes, or is likely to compete, either directly or indirectly, with the Group's businesses under Rule 8.10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the following persons (other than the Directors or the chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Long/short position	Number of shares held: Directly beneficially owned	Number of shares held: Through spouse or minor children	Number of shares held: Total	Approximate percentage of issued share capital
Ms. Daisy TING	Long position	3,385,000	182,442,000 *(Note)*	185,827,000	68.79%
Silver Tree Holdings Inc.	Long position	182,442,000 *(Note)*	–	182,442,000	67.54%

Note:

182,442,000 shares were beneficially owned by Silver Tree Holdings Inc., a company wholly owned by Mr. WANG Kin Chung, Peter. Since Ms. Daisy TING is the spouse of Mr. WANG Kin Chung, Peter, she is deemed to be interested in the shares controlled by Mr. WANG Kin Chung, Peter under Part XV of the SFO.

Save as disclosed above, as at 31 December 2011, no other person (other than a Director or the chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

EMOLUMENT POLICY

The Group provides competitive compensation and benefits for its employees, including group personal accident insurance, retirement and medical benefit schemes.

Remuneration packages are generally structured by reference to market and individual merits. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Those employees with outstanding performance are also awarded discretionary bonuses and share options.

Emolument policy is reviewed regularly by the Board and by the Remuneration Committee in respect of the Directors and senior management. The emoluments payable to the Directors are determined at arm's length on the basis of responsibilities involved, time devoted, current financial position of the Company and the prevailing market conditions.

Details of the emoluments of the Directors for the year ended 31 December 2011 are set out in Note 13 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of the Group are set out in Note 30 to the consolidated financial statements.

MANAGEMENT CONTRACT

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

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales attributable to the Group's largest customer and the five largest customers combined were 16% and 55%, respectively.

The aggregate purchases attributable to the Group's five largest suppliers taken together were less than 30% of the Group's total purchases for the year.

None of the Directors, their associates, or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had, at any time during the year, a beneficial interest in any of the Group's five largest customers.

CONTINUING CONNECTED TRANSACTIONS

On 9 January 2009, Hwa Fuh Manufacturing Company (Hong Kong) Limited ("Hwa Fuh"), a wholly-owned subsidiary of the Company, as tenant, entered into a tenancy agreement (the "Previous Tenancy Agreement") with TDB Company Limited ("TDB"), as landlord, in relation to the leasing of the premises at Ground and 2nd to 11th Floors, Tak Dah Industrial Building, 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong (the "Premises") for a term of two years from 1 April 2009 to 31 March 2011.

On 24 January 2011, a new tenancy agreement (the "New Tenancy Agreement") was entered into between Hwa Fuh and TDB for renewal of the Previous Tenancy Agreement for the Premises for a term of two years from 1 April 2011 to 31 March 2013.

As at the respective dates of the Previous Tenancy Agreement and the New Tenancy Agreement, the entire issued share capital of TDB was held by a discretionary trust of which Mr. WANG Kin Chung, Peter and Ms. WANG KOO Yik Chun, both being Directors, were eligible beneficiaries. TDB was therefore a connected person of the Company for the purpose of the Listing Rules. Accordingly, the entering into of the Previous Tenancy Agreement and the New Tenancy Agreement constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules (the "Continuing Connected Transactions").

Details of the Previous Tenancy Agreement were as follows:

Term	:	Two years from 1 April 2009 to 31 March 2011
Monthly rental	:	HK$371,435 (excluding management fees, government rates and government rent)
Use of the Premises	:	As factory, storage and ancillary office by the Company and certain of its subsidiaries

Details of the New Tenancy Agreement were as follows:

Term	:	Two years from 1 April 2011 to 31 March 2013
Monthly rental	:	HK$490,000 (excluding management fees, government rates and government rent)
Use of the Premises	:	As factory, storage and ancillary office by the Company and certain of its subsidiaries

The annual rental (the "Annual Cap") paid by Hwa Fuh under the Previous Tenancy Agreement for each of the three financial years ended 31 December 2011 was as follows:

Term	**Annual Cap** *HK$*
1 April 2009 to 31 December 2009	3,342,915
1 January 2010 to 31 December 2010	4,457,220
1 January 2011 to 31 March 2011	1,114,305

The Annual Cap paid or payable by Hwa Fuh under the New Tenancy Agreement for each of the three financial years ending 31 December 2013 was as follows:

Term	**Annual Cap** *HK$*
1 April 2011 to 31 December 2011	4,410,000
1 January 2012 to 31 December 2012	5,880,000
1 January 2013 to 31 March 2013	1,470,000

The terms of both the Previous Tenancy Agreement and the New Tenancy Agreement were arrived at after arm's length negotiations between Hwa Fuh and TDB and on the basis of the valuation made by an independent property valuer which opined that the terms (including the rental) of both the Previous Tenancy Agreement and the New Tenancy Agreement were fair and reasonable by reference to the prevailing market rentals for comparable properties in the same district of similar ages, size, uses and attributes.

Further details of the Continuing Connected Transactions were set out in the announcements of the Company dated 9 January 2009 and 24 January 2011 respectively.

The Independent Non-Executive Directors have reviewed the Continuing Connected Transactions and confirmed that during the year such transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with both the Previous Tenancy Agreement and the New Tenancy Agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusion in respect of the Continuing Connected Transactions disclosed on pages 33 to 34 of this Annual Report in accordance with Rule 14A.38 of the Listing Rules.

DISPOSAL OF AN OVERSEAS SUBSIDIARY

During the year, the Group disposed of an inactive overseas subsidiary incorporated in Laos to an independent third party at a consideration of US$1,830,000 (equivalent to HK$14,234,000) and realised a gain of HK$10,827,000.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws and there are no restrictions against such rights under the laws of Bermuda (being the jurisdiction in which the Company was incorporated).

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of its shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the year.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules during the year and up to the date of this report.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the year ended 31 December 2011, except for the deviation from code provision A.2.1 which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Considered reasons for the deviation from code provision A.2.1 as well as further information of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 10 to 22.

CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

Changes in Directors' biographical details since the date of the Company's interim report for the six months ended 30 June 2011 issued in September 2011 are set out below:

Mr. Peter TAN

<u>Cessation of office</u>

- Executive vice president and chief executive officer of Asia Pacific division of Burger King Corporation

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Hong Kong, 26 March 2012

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TRISTATE HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Tristate Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 37 to 114, which comprise the consolidated and Company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2012

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

	Note	2011 HK$'000	2010 HK$'000
Revenue	5	**3,273,299**	3,035,219
Cost of sales		**(2,290,820)**	(2,236,020)
Gross profit		**982,479**	799,199
Other income and other gains/(losses)	5	**4,276**	21,880
Selling and distribution expenses		**(256,784)**	(214,811)
General and administrative expenses		**(450,888)**	(414,326)
Gain on disposal of a subsidiary	39(b)	**10,827**	23,112
Net gain on early termination of a license agreement	31(b)	**–**	8,378
Profit from operations	6	**289,910**	223,432
Finance income	7	**10,291**	5,049
Finance costs	7	**(7,217)**	(7,764)
Profit before income tax		**292,984**	220,717
Income tax expense	8	**(43,242)**	(23,982)
Profit for the year		**249,742**	196,735
Attributable to:			
Equity holders of the Company	9	**249,766**	196,735
Non-controlling interests		**(24)**	–
		249,742	196,735
Dividends	10	**99,894**	80,620
Earnings per share attributable to equity holders of the Company:			
Basic	11	**HK$0.93**	HK$0.73
Diluted	11	**HK$0.92**	HK$0.73

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 **HK$'000**	2010 *HK$'000*
Profit for the year	**249,742**	196,735
Other comprehensive income:		
Fair value gains on cash flow hedges		
Gains arising during the year	**5,568**	9,400
Transferred to and included in the following line items in the consolidated income statement:		
Revenue	**–**	(5,273)
Cost of sales	**(5,547)**	(601)
General and administrative expenses	**(2,035)**	(1,791)
Income tax effect	**615**	(712)
Fair value gain on net investment hedge	**–**	921
Currency translation differences		
Gains arising during the year	**30,652**	40,561
Transferred from translation reserve to the consolidated income statement upon disposal of a subsidiary	**(37)**	–
Other comprehensive income, net of tax	**29,216**	42,505
Total comprehensive income for the year	**278,958**	239,240
Attributable to:		
Equity holders of the Company	**278,982**	239,240
Non-controlling interests	**(24)**	–
	278,958	239,240

The accompanying notes form an integral part of these consolidated financial statements.

	Note	**2011 HK$'000**	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**520,824**	536,035
Investment property	16	**–**	1,339
Leasehold land and land use rights	17	**176,219**	172,672
Intangible assets	19	**244,771**	127,190
Other long-term assets	20	**12,172**	15,330
Deferred income tax assets	32	**30,146**	19,991
Defined benefit plan assets	30	**5,606**	5,140
Investments in associates	21	**–**	–
		989,738	877,697
CURRENT ASSETS			
Inventories	22	**399,988**	298,537
Accounts receivable and bills receivable	23	**357,913**	311,875
Forward foreign exchange contracts	24	**1,447**	3,954
Prepayments and other receivables	25	**123,479**	112,758
Cash and bank balances	26	**629,345**	460,003
		1,512,172	1,187,127
Non-current assets held for sale	16	**1,309**	–
		1,513,481	1,187,127
CURRENT LIABILITIES			
Accounts payable and bills payable	27	**257,235**	189,305
Accruals and other payables	28	**369,559**	273,675
Forward foreign exchange contracts	24	**341**	836
Current income tax liabilities		**72,480**	66,714
Bank borrowings	29	**194,040**	189,833
		893,655	720,363
NET CURRENT ASSETS		**619,826**	466,764
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,609,564**	1,344,461
NON-CURRENT LIABILITIES			
Retirement benefits and other post retirement obligations	30	**11,196**	14,104
License fees payable	31	**182,356**	85,619
Deferred income tax liabilities	32	**54,177**	60,349
Other long-term liabilities	33	**1,184**	767
		248,913	160,839
NET ASSETS		**1,360,651**	1,183,622
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	34	**27,014**	26,874
Reserves	35	**1,333,260**	1,156,347
		1,360,274	1,183,221
Non-controlling interests		**377**	401
TOTAL EQUITY		**1,360,651**	1,183,622

Approved by the Board of Directors on 26 March 2012 and signed on its behalf by:

WANG Kin Chung, Peter
Director

MAK WANG Wing Yee, Winnie
Director

The accompanying notes form an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**1,898**	2,496
Investments in subsidiaries	18(a)	**451,963**	451,151
Other long-term assets	20	**4,244**	5,749
Deferred income tax assets	32	**51**	2
		458,156	459,398
CURRENT ASSETS			
Amounts due from subsidiaries	18(b)	**240,197**	239,161
Prepayments and other receivables	25	**608**	829
Cash and bank balances	26	**2,497**	8,955
		243,302	248,945
CURRENT LIABILITIES			
Accruals and other payables		**14,859**	14,877
Amounts due to subsidiaries	18(b)	**21,779**	23,474
		36,638	38,351
NET CURRENT ASSETS		**206,664**	210,594
TOTAL ASSETS LESS CURRENT LIABILITIES		**664,820**	669,992
NON-CURRENT LIABILITIES			
Retirement benefits and other post retirement obligations	30	**2,881**	5,625
NET ASSETS		**661,939**	664,367
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	34	**27,014**	26,874
Reserves	35	**634,925**	637,493
TOTAL EQUITY		**661,939**	664,367

Approved by the Board of Directors on 26 March 2012 and signed on its behalf by:

WANG Kin Chung, Peter
Director

MAK WANG Wing Yee, Winnie
Director

The accompanying notes form an integral part of this financial statement.

	Attributable to equity holders of the Company				
	Share capital *HK$'000*	**Reserves** *HK$'000*	**Total** *HK$'000*	**Non-controlling interests** *HK$'000*	**Total equity** *HK$'000*
As at 1 January 2011	**26,874**	**1,156,347**	**1,183,221**	**401**	**1,183,622**
Total comprehensive income for the year	**–**	**278,982**	**278,982**	**(24)**	**278,958**
Share option scheme					
– value of employee services	**–**	**671**	**671**	**–**	**671**
Shares issued during the year	**140**	**2,239**	**2,379**	**–**	**2,379**
Dividends paid to equity holders of the Company	**–**	**(104,979)**	**(104,979)**	**–**	**(104,979)**
As at 31 December 2011	**27,014**	**1,333,260**	**1,360,274**	**377**	**1,360,651**

	Attributable to equity holders of the Company				
	Share capital *HK$'000*	Reserves *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
As at 1 January 2010	26,874	959,470	986,344	401	986,745
Total comprehensive income for the year	–	239,240	239,240	–	239,240
Share option scheme					
– value of employee services	–	635	635	–	635
Dividends paid to equity holders of the Company	–	(42,998)	(42,998)	–	(42,998)
As at 31 December 2010	26,874	1,156,347	1,183,221	401	1,183,622

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Operating activities			
Cash generated from operations	39(a)	**348,726**	266,932
Income tax paid		**(52,830)**	(19,439)
Income tax refund		**245**	310
Purchase of tax reserve certificates		**(2,295)**	(2,190)
Net cash generated from operating activities		**293,846**	245,613
Investing activities			
Interest received		**10,291**	5,049
Payment of license fees		**(20,406)**	(16,418)
Purchase of property, plant and equipment		**(44,370)**	(49,475)
Purchase of land use rights		**–**	(136,465)
Proceeds from disposals of property, plant and equipment	39(c)	**967**	3,516
Proceeds from disposals of non-current assets held for sale	39(c)	**–**	6,580
Net cash inflow on disposal of a subsidiary	39(b)	**14,234**	23,112
Increase in bank structured deposits		**(33,305)**	–
Decrease in pledged bank deposits		**590**	18,316
Payment for matured forward foreign exchange contracts – net investment hedge		**–**	(1,313)
Net cash used in investing activities		**(71,999)**	(147,098)
Financing activities			
Interest paid		**(2,208)**	(3,283)
Dividends paid to equity holders of the Company		**(104,979)**	(42,998)
New bank borrowings		**754,542**	1,021,141
Repayment of bank borrowings		**(750,335)**	(1,001,651)
Proceeds from shares issued upon exercise of share options		**2,379**	–
Net cash used in financing activities		**(100,601)**	(26,791)
Increase in cash and cash equivalents		**121,246**	71,724
Cash and cash equivalents at beginning of the year	26	**459,413**	382,497
Effect of foreign exchange rate changes		**15,381**	5,192
Cash and cash equivalents at end of the year	26	**596,040**	459,413

The accompanying notes form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Tristate Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The address of its head office and principal place of business in Hong Kong is 5th Floor, 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong.

The principal activities of the Company and its subsidiaries (together, the "Group") are (i) garment manufacturing, and (ii) branded product distribution, retail and trading.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 1988.

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors of the Company (the "Board") on 26 March 2012.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements comprise the consolidated and the Company's statement of financial position as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. They have been prepared under the historical cost convention, as modified by stating certain derivative financial instruments at fair values.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

Revised standard and amendment to existing standard effective in 2011

In 2011, the Group has adopted the following revised standard and amendment to an existing standard which are mandatory for the first time for the Group's financial year beginning 1 January 2011 and are relevant to the Group's operations. The impact on the Group's accounting policies upon adoption is set out below:

HKAS 24 (Revised), 'Related Party Disclosures'. The revised standard introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. It also clarifies and simplifies the definition of a related party. The revised standard has no impact on the consolidated financial statements.

HKFRS 7 (Amendment), 'Financial Instruments: Disclosure – Transfers of Financial Assets'. The amendment promotes transparency in the reporting of transfer transactions and improves users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment has no impact on the consolidated financial statements.

New standards and amendments to existing standards that are not effective and have not been early adopted by the Group

The following new standards and amendments to existing standards relevant to the Group have been issued, but are not effective for the financial year beginning 1 January 2011 and the Group has not early adopted them:

HKFRS 7 (Amendment), 'Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities' (effective for annual period starting from 1 January 2013). The amendment requires new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The Group will adopt the amendment from 1 January 2013.

HKFRS 9, 'Financial Instruments' (effective for annual period starting from 1 January 2015). The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The Group will adopt the new standard from 1 January 2015.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

New standards and amendments to existing standards that are not effective and have not been early adopted by the Group (Continued)

HKFRS 7 and HKFRS 9 (Amendments), 'Mandatory Effective Date and Transition Disclosures' (effective for annual period starting from 1 January 2015). The amendments delay the effective date to annual periods beginning on or after 1 January 2015, and also modify the relief from restating prior periods. The Group will adopt the amendments from 1 January 2015.

HKFRS 10, 'Consolidated Financial Statements' (effective for annual period starting from 1 January 2013). The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group will adopt the new standard from 1 January 2013.

HKFRS 12, 'Disclosure of Interests in Other Entities' (effective for annual period starting from 1 January 2013). The new standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group will adopt the new standard and disclose the required information from 1 January 2013.

HKFRS 13, 'Fair Value Measurements' (effective for annual period starting from 1 January 2013). The new standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The Group will adopt the new standard and disclose the required information from 1 January 2013.

HKAS 1 (Amendment), 'Presentation of Financial Statements' (effective for annual period starting from 1 July 2012). The amendment changes the disclosure of items presented in other comprehensive income in the statement of comprehensive income. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future. The Group will adopt the amendment from 1 January 2013.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

New standards and amendments to existing standards that are not effective and have not been early adopted by the Group (Continued)

HKAS 19 (Amendment), 'Employee Benefits' (effective for annual period starting from 1 January 2013). The amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for employee benefits. Some of the key changes include:

- Actuarial gains and losses are renamed 'remeasurements' and will be recognised immediately in other comprehensive income. Actuarial gains and losses will no longer be deferred using the corridor approach or recognised in profit or loss. Remeasurements recognised in other comprehensive income will not be recycled through profit or loss in subsequent periods. However, an entity may transfer those amounts recognised in other comprehensive income within equity.

- Past-service costs will be recognised in the period of a plan amendment. Unvested benefits will no longer be spread over a future-service period. A curtailment now occurs only when an entity reduces significantly the number of employees. Curtailment gains/losses are accounted for as past-service costs.

- Annual expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This will replace the finance charge and expected return on plan assets.

The Group is considering the early adoption of the amendment from 1 January 2012. The preliminary assessment indicated that the amendment does not significantly impact the 2011 consolidated financial statements taken as a whole.

HKAS 27, 'Separate Financial Statements' (effective for annual period starting from 1 January 2013). The renamed HKAS 27 continues to be a standard dealing with separate financial statements. The existing guidance for separate financial statements is unchanged. The Group will adopt the standard from 1 January 2013.

HKAS 32 (Amendment), 'Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities' (effective for annual period starting from 1 January 2014). The amendment clarifies the requirements for offsetting financial instruments. It addresses inconsistencies in current practice when applying the offsetting criteria and clarifies the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The Group will adopt the amendment from 1 January 2014.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the aggregate fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note 2(g)). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investments.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Consolidation (Continued)

(ii) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to consolidated income statement.

(iii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill identified on acquisition, net of any accumulated impairment losses. See Note 2(w) for the impairment of non-financial assets including goodwill.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of losses in the associates equals or exceeds its interest in the associates, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associates.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the consolidated income statement. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to consolidated income statement where appropriate.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, the Company's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation when items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

(iii) Group companies

The results and financial positions of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment

Freehold land interests are stated at historical cost and not depreciated. All other property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical costs include expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the consolidated income statement during the financial period in which they are incurred.

Leasehold land interests classified as finance leases are depreciated from the time when the land interest becomes available for its intended use. Depreciation on leasehold land interests classified as finance leases and depreciation on other assets are calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Leasehold land interests classified as finance leases	Shorter of the useful life or the lease term of 10 to 50 years
Buildings	2% – 10%
Plant and machinery	10% – 20%
Leasehold improvements, furniture, fixtures and equipment	4% – 33%
Motor vehicles	14% – 20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(w)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognised within other gains/(losses) in the consolidated income statement.

(e) Investment properties

Investment properties are properties which are not occupied by companies in the Group and are held by the Group to earn rental income.

Investment properties are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation of investment properties is calculated using straight-line method to allocate their costs over their estimated useful lives of 10 to 50 years.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Leasehold land and land use rights

Leasehold interests in land and land use rights are classified as either finance or operating leases depending upon whether the lease transfers substantially all the risks and rewards incidental to its ownership to the Group.

When the leases are classified as operating leases, the premiums paid to acquire leasehold land and land use rights are recorded as prepayment for operating lease, and are amortised on a straight-line basis over the period of the leases and land use rights. Where there is impairment, the impairment is expensed immediately in the consolidated income statement.

When the leases are classified as finance leases, the land interest is accounted for as below:

- If the related property interest is held for own use, that land interest is accounted for as property, plant and equipment (Note 2(d)).
- If the related property interest is held to earn rentals and/or for capital appreciation, that land interest is accounted for as investment property (Note 2(e)).

(g) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(ii) License rights/License fees payable

License rights on branded products are stated at cost less accumulated amortisation and accumulated impairment losses, if any. License rights are initially measured as the fair value of the consideration given for the recognition of the license rights at the time of the inception. The consideration given is determined based on the capitalisation of the minimum license fee payments in accordance with the license agreements. License rights are amortised over the license period on the basis that reflects the pattern in which the license's future economic benefits are expected to be consumed by the Group.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Intangible assets (Continued)

(ii) *License rights/License fees payable* (Continued)

License fees payable in respect of the inception of the license rights is initially recognised at fair value of the consideration given for the recognition of the license rights at the time of the inception, which represents present values of contractual minimum payments that can be reliably estimated at the time of the inception. It is subsequently stated at amortised cost using the effective interest method.

Interest is accrued on license fees payable and charged to interest expense. Changes in estimates of the expected cash flows are recognised as other gains/(losses) in the consolidated income statement. The revised expected cash flows are discounted using the original effective interest rate to arrive at the carrying amount of the liability.

(h) Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the specific identification method or first-in, first-out method for inventories of garment manufacturing segment (depending on type of inventories) and the weighted average method for inventories of branded product distribution, retail and trading segment. The cost of finished goods and work in progress comprises raw materials, direct labour and related production overheads. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(j) Accounts receivable and bills receivable

Accounts receivable and bills receivable are amounts due in respect of merchandise sold or services performed in the ordinary course of business. If collection of accounts receivable and bills receivable are expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Accounts receivable and bills receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term deposits with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

(l) Financial assets

The Group classifies its financial assets in the following categories: (i) financial assets at fair value through profit or loss, (ii) loans and receivables, (iii) held-to-maturity financial assets and (iv) available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Regular purchases and sales of financial assets are recognised on the settlement date – the date on which the Group makes payment to purchase or receives cash from selling the assets. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred all risks and rewards of ownership. Management determines the classification of its financial assets on initial recognition and re-evaluates this designation at the end of each reporting period.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges (Note 2(m)). Assets in this sub-category are classified as current assets if they are expected to be realised within 12 months; otherwise, they are classified as non-current.

Financial assets at fair value through profit or loss are recognised at fair value and transaction costs are expensed in the consolidated income statement.

Realised and unrealised gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the consolidated income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(I) Financial assets (Continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, unless maturity is greater than 12 months after the end of the reporting period, in which case they are classified as non-current assets. Loans and receivables comprise accounts and bills receivable, deposits and other receivables, and cash and bank balances in the consolidated statement of financial position.

Loans and receivables are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method. Interest on loans and receivables calculated using the effective interest method is recognised in the consolidated income statement as part of finance income.

(iii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale financial assets. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

Held-to-maturity financial assets are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method. Interest on held-to-maturity financial assets calculated using the effective interest method is recognised in the consolidated income statement as part of finance income.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months at the end of the reporting period.

Available-for-sale financial assets are initially recognised at fair value plus transaction costs and subsequently carried at fair value, or cost less impairment loss if their fair value cannot be reliably measured. Gains or losses arising from changes in fair value are recognised in other comprehensive income. When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are transferred to the consolidated income statement as other income. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in the consolidated income statement as part of finance income. Dividends on available-for-sale financial assets are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair values. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

– Hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or

– Hedges of a net investment in a foreign operation (net investment hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement within other gains/(losses).

Amounts accumulated in equity are recycled to the consolidated income statement in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement within other gains/(losses).

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Derivative financial instruments and hedging activities (Continued)

(ii) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement within other gains/(losses).

Gains and losses accumulated in equity are included in the consolidated income statement when the foreign operation is partially disposed of or sold.

(iii) Derivative accounted for at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the consolidated income statement within other gains/(losses).

An embedded derivative is separated from the host contract and accounted for as a derivative at fair value at initial recognition and subsequently if and only if:

– the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

– a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

– the entire hybrid (combined) instrument is not designated as at fair value through profit or loss.

When an embedded derivative is separated, the host contract shall be accounted for as a financial instrument according to Note (l)(i) to (l)(iv), if applicable.

(n) Accounts payable and bills payable

Accounts payable and bills payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. A provision for restructuring costs is recognised only when the general recognition criteria for provisions are met and usually comprises lease termination penalties and employees termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax interest rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(p) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of each reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits

The Group maintains a number of defined benefit and defined contribution plans in the countries in which it operates, the assets of the retirement benefit are generally held in separate trustees-administered funds. The retirement plans are generally funded by payments from employees and by the Group and, where applicable, taking account of the recommendations of qualified actuaries.

The Group's contributions to the defined contribution retirement schemes are expensed in the consolidated income statement as incurred and are reduced by contributions forfeited with respect to employees who leave the scheme prior to vesting fully in the contributions.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Employee benefits (Continued)

(ii) *Retirement benefits* (Continued)

For defined benefit plans, retirement benefit costs are assessed using the projected unit credit method. The cost of providing retirement benefit plans is charged to the consolidated income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans each year. The retirement benefit obligation is measured as the present value of the estimated future cash outflows discounted by using interest rates of government securities or high quality corporate bonds which have terms to maturity approximating the terms of the related liabilities. Actuarial gains and losses are recognised over the average remaining service lives of employees to the extent of the amount in excess of 10% of the greater of the present value of the retirement benefit obligation and the fair value of plan assets. Past-service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

(iii) *Share-based compensation*

The Group operates a share-based compensation plan, under which the entity receives services from employees as consideration for share options of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and years of service of employees). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in other comprehensive income or equity. In this case, the tax is also recognised in other comprehensive income or equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of each reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. The Group recognises tax liabilities for anticipated tax audit issues based on a single best estimate of the most likely outcome approach. Estimated settlement cost such as penalty, where applicable, are recognised under accruals and other payables in the consolidated statement of financial position and general and administrative expenses in the consolidated income statement.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the end of each reporting period and are expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liabilities for at least 12 months after the end of the reporting period.

(s) Borrowing costs

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of the time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(t) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and commission income in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Commission income is recognised when services are rendered.

Rental income is recognised on a straight-line basis over the lease term.

Interest income is recognised on a time-proportion basis using the effective interest method.

(u) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives from the lessor), are expensed in the consolidated income statement on a straight-line basis over the period of the lease.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Government grants

Grants from the government are recognised at their fair values where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are deducted in arriving at the carrying amount of the related asset. The grant is recognised as income over the life of the depreciable asset by way of a reduced depreciation charge.

(w) Impairment of investments in subsidiaries, investments in associates and non-financial assets

Assets that have an indefinite useful life (including goodwill) are not subject to amortisation and are tested annually for impairment. In addition, all assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the Company's statement of financial position exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(x) Impairment of financial assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Impairment of financial assets carried at amortised cost (Continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(y) Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's equity holders.

(z) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, has been identified collectively as the Chief Executive Officer and Senior Management who make strategic decisions.

(aa) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, it will then be recognised as an asset.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ab) Financial guarantees

A financial guarantee (a type of insurance contract) is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument. The Group does not recognise liabilities for financial guarantees at inception, but performs a liability adequacy test at the end of each reporting period by comparing its net liability regarding the financial guarantee with the amount that would be required if the financial guarantee were to result in a present legal or constructive obligation. If the liability is less than the amount of the present legal or constructive obligation, the entire difference is recognised in the consolidated income statement immediately.

(ac) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction net of tax, from the proceeds.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

Financial assets and financial liabilities carried on the consolidated statement of financial position include cash and bank balances, accounts receivable, bills receivable, other receivables, forward foreign exchange contracts, long-term rental deposits, deposits with a financial institution, accounts payable, bills payable, other payables, bank borrowings, license fees payable and other long-term liabilities.

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), liquidity risk and credit risk. The Group's risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions, recognised assets, liabilities and net investment in foreign operation are denominated in a currency that is not the entity's functional currency. The Group operates internationally and is thus exposed to foreign exchange risk arising from various currency exposures. The Group manages significant foreign exchange risk against the respective subsidiaries' functional currencies arising from future commercial transactions, recognised assets, liabilities and net investment in foreign operation principally by means of forward foreign exchange contracts.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

For the year ended 31 December 2011, sales of goods were mainly denominated in United States dollars. The major currencies for purchases were United States dollars and Euro. In addition, entities within the Group (whose functional currencies are Renminbi, Philippine Pesos, Thai Bahts and Vietnam Dongs) have monetary assets and liabilities denominated in Hong Kong dollars and United States dollars.

The Group has entered into forward foreign exchange contracts to hedge against the foreign exchange exposures arising from United States dollars denominated processing income for factories in the PRC, the Philippines and Vietnam, from Pound Sterling for service fees payments to a UK subsidiary and from Euro for payments to suppliers.

As at 31 December 2011, if Renminbi against Hong Kong dollars had strengthened/ weakened by 3% with all other variables held constant, the post-tax profit for the year would be increased/decreased by HK$3,342,000 mainly as a result of foreign exchange gains/losses on translation of Renminbi denominated net monetary assets of a Hong Kong subsidiary company; while the other comprehensive income would be increased/decreased by HK$6,823,000, representing the impact of the change in fair value of forward foreign exchange contracts at the end of the reporting period.

As at 31 December 2011, if Euro against Hong Kong dollars had strengthened/ weakened by 3% with all other variables held constant, the post-tax profit for the year would be decreased/increased by HK$4,193,000 mainly as a result of foreign exchange losses/gains on translation of Euro denominated liabilities; while the other comprehensive income would be increased/decreased by HK$227,000, representing the impact of the change in fair value of forward foreign exchange contracts at the end of the reporting period. Subsequent to the year end, the Group had entered additional forward foreign exchange contracts to hedge the Euro exchange risk.

If Pound Sterling, Philippine Pesos, Thai Bahts and Vietnam Dongs had strengthened/ weakened against Hong Kong dollars by 3% at the year end with all other variables held constant, the effect on post-tax profit for the year would not be significant.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk

The Group's cash flow and fair value interest rate risk primarily relates to bank balances and bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The management of the Group monitors the related interest rate risk exposure closely and will consider hedging significant interest rate risk exposure should the need arise.

As at 31 December 2011, if interest rates on borrowings had increased/decreased by 25 basis points with all other variables held constant, the effect on post-tax profit for the year would not be significant.

Management considers the fair value interest rate risk related to the borrowings is insignificant.

(b) Liquidity risk

The Group has been prudent in liquidity risk management by maintaining sufficient cash and the availability of sufficient funding through an adequate amount of committed credit facilities from the Group's bankers.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The cash flow requirements for derivative financial instrument arising from forward foreign exchange contracts are separately provided as the contractual maturities are essential for the understanding of the timing of the cash flow.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Liquidity risk (Continued)

Group

	Less than 1 year *HK$'000*	**Between 1 and 2 years** *HK$'000*	**Between 2 and 5 years** *HK$'000*	**Total** *HK$'000*
As at 31 December 2011				
Accounts payable and bills payable	**257,235**	**–**	**–**	**257,235**
Accruals and other payables	**147,446**	**–**	**–**	**147,446**
Bank borrowings and interest payments	**194,222**	**–**	**–**	**194,222**
License fees payable	**24,183**	**53,178**	**148,876**	**226,237**
Other long-term liabilities	**472**	**1,259**	**–**	**1,731**
	623,558	**54,437**	**148,876**	**826,871**

	Less than 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*	Total *HK$'000*
As at 31 December 2010				
Accounts payable and bills payable	189,305	–	–	189,305
Accruals and other payables	159,181	–	–	159,181
Bank borrowings and interest payments	190,037	–	–	190,037
License fees payable	17,808	22,676	74,481	114,965
Other long-term liabilities	5,772	822	343	6,937
	562,103	23,498	74,824	660,425

All the Group's forward foreign exchange contracts are in hedge relationships and are due to settle within 12 months at the end of each reporting period. The gross settlement contracts require undiscounted contractual cash inflows of HK$77,473,000 (2010: HK$177,792,000) and undiscounted contractual cash outflows of HK$76,913,000 (2010: HK$175,642,000). The net settlement contracts require undiscounted contractual cash inflows of HK$884,000 (2010: HK$271,000).

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Liquidity risk (Continued)

Company

	Less than 1 year *HK$'000*	**Between 1 and 2 years** *HK$'000*	**Between 2 and 5 years** *HK$'000*	**Total** *HK$'000*
As at 31 December 2011				
Accruals and other payables	**5,824**	**–**	**–**	**5,824**
Amounts due to subsidiaries	**21,779**	**–**	**–**	**21,779**
	27,603	**–**	**–**	**27,603**

	Less than 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*	Total *HK$'000*
As at 31 December 2010				
Accruals and other payables	6,877	–	–	6,877
Amounts due to subsidiaries	23,474	–	–	23,474
	30,351	–	–	30,351

(c) Credit risk

Credit risk mainly arises from cash and bank balances, deposits with financial institutions, derivative financial instruments, outstanding accounts receivables and other receivables.

The Group's sales are mainly on open account. Each open account customer is granted an approved credit limit and the Group closely and regularly monitors the credit default risk of receivables from customers. Derivative counter parties and cash transactions are limited to high-credit-quality financial institutions. As at 31 December 2011, all bank balances and bank deposits were held at reputable financial institutions. Deteriorating operating conditions of customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in the asset impairment assessments.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and to maintain an optimal capital structure to reduce the cost of capital.

Total capital comprises 'equity' as shown in the consolidated statement of financial position plus net borrowing, if any. During the years ended 31 December 2011 and 2010, the Group had no net borrowings, which is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders, issue new shares or reduce debt.

3.3 Fair value estimation

The fair value of derivative financial instruments (forward foreign exchange contracts) is determined using forward exchange market rates at the end of each reporting period. The carrying values of financial assets other than derivative financial instruments are reasonable approximations of their fair values for disclosure purposes. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Financial instruments are measured in the statement of financial position at fair value. HKFRS 7 (Amendment) requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

The following tables present the Group's financial assets and liabilities that are measured at fair value at 31 December 2011 and 2010.

At 31 December 2011

	Level 1 *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*	**Total** *HK$'000*
Assets				
Forward foreign exchange contracts	**–**	**1,447**	**–**	**1,447**
Total assets	**–**	**1,447**	**–**	**1,447**
Liabilities				
Forward foreign exchange contracts	**–**	**(341)**	**–**	**(341)**
Total liabilities	**–**	**(341)**	**–**	**(341)**

At 31 December 2010

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Assets				
Forward foreign exchange contracts	–	3,954	–	3,954
Total assets	–	3,954	–	3,954
Liabilities				
Forward foreign exchange contracts	–	(836)	–	(836)
Total liabilities	–	(836)	–	(836)

There was no transfer of financial assets in the fair value hierarchy classifications for the years ended 31 December 2011 and 2010.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

Estimates and judgement are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT (Continued)

(a) Useful lives, residual values and depreciation of property, plant and equipment

The management of the Group determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

(b) Estimated impairment of investments in subsidiaries, investments in associates and non-financial assets, including goodwill

The Group assesses whether investments in subsidiaries, investments in associates and non-financial assets including goodwill have suffered any impairment in accordance with the accounting policy stated in Note 2(w). The recoverable amounts have been determined based on value in use calculations or market valuations. These calculations require the use of judgement and estimates. Management believes that any reasonable possible change in any of these assumptions would not cause the aggregate carrying amounts of cash-generating units to exceed their recoverable amounts.

(c) Current and deferred income tax

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due, using a single best estimate of the most likely outcome approach (Notes 8 and 28). Where the final tax outcome of these matters are different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax assets and liabilities in the period in which such determinations are made. If the estimated amount of provision for income taxes in respect of the tax audit issues is different from the final tax outcome by 10%, it will not have a significant impact on the consolidated financial statements taken as a whole.

Deferred income tax assets relating to temporary differences and tax losses are recognised when management expects it is probable that future taxable profits will be available to utilise against the temporary differences or tax losses. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets in the period in which such estimates have been changed.

(d) Estimated impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of the receivables. Provisions are applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of receivables requires the use of judgement and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of receivables in the period in which such estimates have been changed.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT (Continued)

(e) Estimated write-downs of inventories to net realisable value

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of inventories in the period in which such estimates have been changed.

(f) Retirement and long service benefits

The determination of the Group's liabilities under defined benefit plans and long service payment liabilities depends on a number of factors relating to an actuarial valuation using a number of assumptions. The key assumptions are disclosed in Notes 30(b) and (c). Any changes in these assumptions will impact the carrying amount of the benefit obligations in the period in which such assumptions have been changed.

(g) Amortisation of license rights

License rights are amortised over the license period on the basis that reflects the pattern in which the license's future economic benefits are expected to be consumed by the Group. The determination of amortisation method on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset requires the use of judgement. Any changes in the amortisation method will impact the carrying value of license rights and the annual amortisation amount to be charged to the consolidated income statement.

5. REVENUE/INCOME AND SEGMENT INFORMATION

(a) Revenue/income by nature

	2011 ***HK$'000***	2010 *HK$'000*
Revenue		
Sales of goods	**3,271,184**	3,032,522
Commission income	**2,115**	2,697
	3,273,299	3,035,219
Other income and other gains/(losses)		
Net gain on disposals of non-current assets held for sale	**–**	3,343
Net gain on disposals of property, plant and equipment	**266**	2,001
Rental income from investment properties	**163**	568
Change in fair value of derivative financial instruments	**–**	(52)
Gain on ineffectiveness arising from net investment hedge	**–**	25
Insurance claim income	**1,144**	896
Government subsidies	**–**	6,333
Government incentive on reinvestment of profit	**–**	6,910
Sundry income	**2,703**	1,856
	4,276	21,880
	3,277,575	3,057,099

5. REVENUE/INCOME AND SEGMENT INFORMATION (Continued)

(b) Segment information

Reportable segments are identified and reported in the manner consistent with internal reports of the Group that are regularly reviewed by the chief operating decision makers (the Chief Executive Officer and Senior Management collectively) in order to assess performance and allocate resources. The chief operating decision makers assess the performance of the reportable segments based on the profit and loss generated.

The Group has two reportable segments: (i) garment manufacturing, and (ii) branded product distribution, retail and trading. The segment information is as follows:

	Garment manufacturing		Branded product distribution, retail and trading		Unallocated *(Note)*		Total	
	2011 **HK$'000**	2010 *HK$'000*	**2011** **HK$'000**	2010 *HK$'000*	**2011** **HK$'000**	2010 *HK$'000*	**2011** **HK$'000**	2010 *HK$'000*
Segment revenue	**2,331,112**	2,376,369	**982,218**	658,850	**–**	–	**3,313,330**	3,035,219
Less: Revenue from intersegment	**(40,031)**	–	**–**	–	**–**	–	**(40,031)**	–
Revenue from external customers	**2,291,081**	2,376,369	**982,218**	658,850	**–**	–	**3,273,299**	3,035,219
Reportable segment profit	**82,068**	83,445	**132,149**	75,782	**10,998**	6,018	**225,215**	165,245
Exchange gain on translation of license fees payable	**–**	–	**13,700**	–	**–**	–	**13,700**	–
Gain on disposal of a subsidiary					**10,827**	23,112	**10,827**	23,112
Net gain on termination of a license agreement					**–**	8,378	**–**	8,378
Profit for the year							**249,742**	196,735

Note: To be consistent with the internal reporting, certain corporate income net of expenses and non-recurring gains/(losses) were not allocated to reportable segments. The relevant amounts in 2010 have also been presented to conform to the current year's allocation basis.

	Garment manufacturing		Branded product distribution, retail and trading		Unallocated *(Note (1))*		Total	
	2011 **HK$'000**	2010 *HK$'000*	**2011** **HK$'000**	2010 *HK$'000*	**2011** **HK$'000**	2010 *HK$'000*	**2011** **HK$'000**	2010 *HK$'000*
Segment assets	**1,074,189**	1,053,529	**541,973**	262,017	**887,057**	749,278	**2,503,219**	2,064,824
including:								
Investments in associates	**–**	–	**–**	–	**–**	–	**–**	–
Additions to non-current assets *(Note (2))*	**26,455**	29,241	**134,888**	4,594	**15,824**	152,105	**177,167**	185,940
Segment liabilities	**350,435**	348,462	**512,093**	266,907	**280,040**	265,833	**1,142,568**	881,202

5. REVENUE/INCOME AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

	Garment manufacturing		Branded product distribution, retail and trading		Unallocated		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Finance income	**–**	–	**–**	–	**10,291**	5,049	**10,291**	5,049
Finance costs	**(308)**	(349)	**(4,701)**	(4,132)	**(2,208)**	(3,283)	**(7,217)**	(7,764)
Income tax expense	**(5,868)**	(4,806)	**(44,344)**	(19,176)	**6,970**	–	**(43,242)**	(23,982)
Amortisation of leasehold land and land use rights	**(476)**	(479)	**–**	–	**(3,594)**	(2,652)	**(4,070)**	(3,131)
Amortisation of license rights	**–**	–	**(15,099)**	(12,194)	**–**	–	**(15,099)**	(12,194)
Depreciation on property, plant and equipment	**(40,241)**	(40,102)	**(3,925)**	(4,384)	**(19,236)**	(17,511)	**(63,402)**	(61,997)
Depreciation on investment properties	**–**	–	**–**	–	**(30)**	(36)	**(30)**	(36)
Provision for impairment on property, plant and equipment	**–**	–	**–**	–	**(4,936)**	–	**(4,936)**	–
(Provision for)/reversal of impairment of receivables, net	**(203)**	3,200	**–**	114	**–**	–	**(203)**	3,314
Write-down of inventories to net realisable value, net	**(8,162)**	(8,144)	**(1,607)**	1,725	**–**	–	**(9,769)**	(6,419)
Net gain on disposals of non-current assets held for sale	**–**	–	**–**	–	**–**	3,343	**–**	3,343
Net gain on disposals of property, plant and equipment	**–**	–	**–**	–	**266**	2,001	**266**	2,001

5. REVENUE/INCOME AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

The Group's revenue is mainly derived from customers located in the United States of America, the United Kingdom (the "UK") and the PRC, while the Group's production facilities and other assets are located predominantly in the PRC and Thailand. The PRC includes the mainland of the PRC, Hong Kong and Macau. An analysis of the Group's revenue by location of customers and an analysis of the Group's non-current assets by location of assets are as follows:

	The United States of America		UK		PRC		Other countries		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**1,220,518**	1,388,038	**670,110**	654,864	**1,041,978**	694,618	**340,693**	297,699	**3,273,299**	3,035,219

Included in revenue derived from the PRC was HK$177,008,000 (2010: HK$152,597,000) related to revenue generated in Hong Kong.

For the year ended 31 December 2011, revenues from three customers in the garment manufacturing segment each accounted for more than 10% of the Group's total revenue and represented approximately 16%, 12% and 12% (2010: 22%, 10% and 12%) of the total revenue respectively.

	PRC		Thailand		Other locations		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Non-current assets *(Note (2))*	**807,598**	680,198	**90,778**	108,592	**55,610**	63,776	**953,986**	852,566

Included in non-current assets located in the PRC was HK$276,349,000 (2010: HK$165,259,000), related to assets located in Hong Kong.

Notes:

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

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

6. PROFIT FROM OPERATIONS

Profit from operations is stated after crediting and charging the following:

	2011 HK$'000	2010 HK$'000
Crediting		
Net rental income from investment properties	85	514
Net exchange gain	24,303	–
Charging		
Depreciation on property, plant and equipment	63,402	61,997
Depreciation on investment properties	30	36
Provision for impairment on property, plant and equipment	4,936	–
Amortisation of leasehold land and land use rights	4,070	3,131
Amortisation of license rights	15,099	12,194
Provision for/(reversal of) impairment of receivables, net	203	(3,314)
Write-down of inventories to net realisable value, net	9,769	6,419
Employment expenses *(Note 12)*	692,323	611,002
Operating lease rental in respect of land and buildings	57,987	62,401
Auditors' remuneration	5,035	4,516
Net exchange loss	–	348

7. FINANCE INCOME/FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Finance income		
Interest income from bank deposits	10,291	5,049
Finance costs		
Interest on bank loans	2,208	3,283
Imputed interest on license fees payable	4,701	4,132
Imputed interest on other long-term liabilities	308	349
	7,217	7,764

8. INCOME TAX EXPENSE

	2011 HK$'000	2010 HK$'000
Current income tax		
Hong Kong profits tax	14,282	11,473
Non-Hong Kong tax	43,406	26,038
Deferred income tax	(14,446)	(13,529)
	43,242	23,982

8. INCOME TAX EXPENSE (Continued)

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits for the year. Income taxes on non-Hong Kong profits have been calculated on the estimated assessable profits at the applicable income tax rates prevailing in the countries/places in which the Group operates.

Subsidiaries established and operated in the Mainland China are subject to the Mainland China Enterprise Income Tax at the rates ranging from 24% to 25% for the year (2010: 22% to 25%).

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits on the Group companies as follows:

	2011 ***HK$'000***	2010 *HK$'000*
Profit before income tax	**292,984**	220,717
Tax calculated at weighted average tax rate applicable to profits in the respective countries/places	**47,786**	31,405
Income not subject to tax	**(18,452)**	(18,407)
Expenses not deductible for tax	**21,914**	13,153
Utilisation of previously unrecognised tax losses	**(5,095)**	(2,891)
Unrecognised current year tax losses	**84**	15
Net (over)/under provision in prior years	**(2,134)**	1,239
Net increase in net deferred tax assets resulting from change in tax rates	**(861)**	(532)
Income tax expense	**43,242**	23,982

The weighted average applicable domestic tax rate was 17% for the year ended 31 December 2011 (2010: 15%). The increase is caused by a change in mix of profits earned by different Group companies which are subject to different tax rates.

There were no share of income tax expenses of associates for the year ended 31 December 2011 (2010: Nil) included in the consolidated income statement as share of losses of associates.

In early 2006, the Hong Kong Inland Revenue Department (the "HK IRD") initiated a tax audit on certain companies within the Group for the years of assessment from 1999/2000 (financial year ended 31 December 1999) to 2004/2005 (financial year ended 31 December 2004). The HK IRD has issued protective assessments to some of these companies for the years of assessment 1999/2000 to 2004/2005 in view of the statutory time bar (Note 25). During the course of the tax audit, further protective assessments for subsequent years may be raised by the HK IRD with respect to these companies. Since the tax audit is ongoing, its outcome cannot be readily ascertained. Management has reviewed the situation and, after seeking necessary professional advice, considers that sufficient tax related provisions have been made in the consolidated financial statements.

9. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$99,501,000 (2010: HK$73,375,000).

10. DIVIDENDS

	2011	2010
	HK$'000	*HK$'000*
Interim dividend paid – HK$0.15 (2010: HK$0.06) per share	**40,440**	16,124
Final dividend proposed – HK$0.22 (2010: HK$0.24) per share	**59,454**	64,496
	99,894	80,620

A final dividend for the year ended 31 December 2011 of HK$0.22 per share, totalling HK$59,454,000 (2010: HK$0.24 per share, totalling HK$64,496,000), is recommended by the Board for approval at the forthcoming annual general meeting of the Company. This proposed dividend has not been dealt with as dividend payable as at 31 December 2011, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2012.

11. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the consolidated profit attributable to equity holders of the Company by the weighted average number of shares in issue for the year.

	2011	2010
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company	**249,766**	196,735
Weighted average number of ordinary shares in issue	**269,398,754**	268,735,253
Basic earnings per share	**HK$0.93**	HK$0.73

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

	2011	2010
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company	**249,766**	196,735
Weighted average number of ordinary shares in issue	**269,398,754**	268,735,253
Effect of share options	**811,462**	273,863
Weighted average number of ordinary shares for diluted earnings per share	**270,210,216**	269,009,116
Diluted earnings per share	**HK$0.92**	HK$0.73

12. EMPLOYMENT EXPENSES

	2011 HK$'000	2010 HK$'000
Directors' emoluments *(Note 13)*	11,513	10,184
Wages, salaries, allowances and bonuses	615,409	548,359
Welfare and other benefits	42,406	31,212
Retirement benefits		
– Defined contribution plans	21,279	19,565
– Defined benefit plans *(Note 30(b))*	(376)	(471)
– Long service payment liabilities *(Note 30(c))*	1,165	1,131
– Others	256	387
Share-based compensation expense – share options granted *(Note 36)*	671	635
	692,323	611,002

13. DIRECTORS' EMOLUMENTS

Details of the directors' emoluments are set out below:

Name	Fees HK$'000	Salary and other benefits HK$'000	Discretionary bonuses HK$'000	Employer's contribution to retirement benefit schemes HK$'000	2011 Total HK$'000	2010 Total HK$'000
Executive Director:						
Mr. WANG Kin Chung, Peter	–	4,680	4,996	142	9,818	8,737
Non-Executive Directors:						
Ms. WANG KOO Yik Chun	67	717	300	–	1,084	1,077
Ms. MAK WANG Wing Yee, Winnie	133	–	–	–	133	85
Dr. WANG Shui Chung, Patrick	80	–	–	–	80	60
Independent Non-Executive Directors:						
Mr. LO Kai Yiu, Anthony	170	–	–	–	170	105
Mr. James Christopher KRALIK	133	–	–	–	133	75
Mr. Peter TAN	95	–	–	–	95	–
Professor John Zhuang YANG	–	–	–	–	–	45
	678	5,397	5,296	142	11,513	10,184

No director waived his/her emoluments during the year (2010: Nil).

14. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2011 include one (2010: one) director, whose emoluments are disclosed in Note 13. Details of emoluments of the other four (2010: four) individuals are as follows:

	2011	2010
	HK$'000	*HK$'000*
Salaries, allowances and other benefits	**7,035**	9,268
Discretionary bonuses	**17,325**	6,327
Contribution to retirement benefit schemes	**12**	119
	24,372	15,714

The emoluments of these four (2010: four) individuals are within the following bands:

	Number of employees	
	2011	2010
HK$3,000,001 – HK$3,500,000	**1**	1
HK$3,500,001 – HK$4,000,000	**–**	1
HK$4,000,001 – HK$4,500,000	**–**	1
HK$4,500,001 – HK$5,000,000	**–**	1
HK$5,000,001 – HK$5,500,000	**1**	–
HK$7,000,001 – HK$7,500,000	**1**	–
HK$8,500,001 – HK$9,000,000	**1**	–
	4	4

During the year, no emoluments were paid to the five highest paid individuals as an inducement to join the Group or as compensation for loss of office (2010: Nil).

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Freehold land+	Buildings+	Plant and machinery	Leasehold improvements, furniture, fixtures and equipment	Motor vehicles	Construction-in-progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2011							
Cost	66,820	510,420	333,047	252,503	22,236	3,263	1,188,289
Accumulated depreciation and impairment	–	(158,978)	(258,843)	(216,695)	(17,738)	–	(652,254)
Net book amount	66,820	351,442	74,204	35,808	4,498	3,263	536,035
Year ended 31 December 2011							
Opening net book amount	66,820	351,442	74,204	35,808	4,498	3,263	536,035
Additions	–	5,503	7,406	17,996	984	12,481	44,370
Transfer/reclassification	–	2,077	–	–	–	(2,077)	–
Disposals	–	–	(564)	(91)	(46)	–	(701)
Disposal of a subsidiary *(Note 39(b))*	–	(3,444)	–	–	–	–	(3,444)
Depreciation	–	(29,963)	(14,962)	(16,723)	(1,754)	–	(63,402)
Impairment	–	(4,936)	–	–	–	–	(4,936)
Exchange differences	(3,196)	11,909	2,359	1,522	61	247	12,902
Closing net book amount	63,624	332,588	68,443	38,512	3,743	13,914	520,824
As at 31 December 2011							
Cost	63,624	519,729	296,130	258,369	22,665	13,914	1,174,431
Accumulated depreciation and impairment	–	(187,141)	(227,687)	(219,857)	(18,922)	–	(653,607)
Net book amount	63,624	332,588	68,443	38,512	3,743	13,914	520,824

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

	Freehold land+ HK$'000	Buildings+ HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction-in-progress HK$'000	Total HK$'000
As at 1 January 2010							
Cost	60,306	489,673	328,249	263,544	24,419	5,732	1,171,923
Accumulated depreciation and impairment	–	(140,901)	(260,443)	(226,000)	(20,208)	–	(647,552)
Net book amount	60,306	348,772	67,806	37,544	4,211	5,732	524,371
Year ended 31 December 2010							
Opening net book amount	60,306	348,772	67,806	37,544	4,211	5,732	524,371
Additions	–	14,864	18,495	13,012	2,154	950	49,475
Transfers/reclassifications	–	1,246	1,409	1,007	–	(3,662)	–
Disposals	–	(95)	(62)	(1,236)	(122)	–	(1,515)
Depreciation	–	(28,890)	(15,756)	(15,570)	(1,781)	–	(61,997)
Exchange differences	6,514	15,545	2,312	1,051	36	243	25,701
Closing net book amount	66,820	351,442	74,204	35,808	4,498	3,263	536,035
As at 31 December 2010							
Cost	66,820	510,420	333,047	252,503	22,236	3,263	1,188,289
Accumulated depreciation and impairment	–	(158,978)	(258,843)	(216,695)	(17,738)	–	(652,254)
Net book amount	66,820	351,442	74,204	35,808	4,498	3,263	536,035

\+ Freehold land is located in Thailand, Taiwan and the Philippines. The buildings are located in the PRC, Taiwan, Thailand and the Philippines.

Depreciation expense of HK$25,955,000 (2010: HK$26,834,000) is included in cost of sales, HK$2,489,000 (2010: HK$3,113,000) is included in selling and distribution expenses and HK$34,958,000 (2010: HK$32,050,000) is included in general and administrative expenses. Impairment charges of HK$4,936,000 (2010: Nil) is included in general and administrative expenses.

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Plant and machinery HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
As at 1 January 2011				
Cost	**33**	**17,356**	**3,323**	**20,712**
Accumulated depreciation	**(33)**	**(17,333)**	**(850)**	**(18,216)**
Net book amount	**–**	**23**	**2,473**	**2,496**
Year ended 31 December 2011				
Opening net book amount	**–**	**23**	**2,473**	**2,496**
Additions	**–**	**28**	**–**	**28**
Depreciation	**–**	**(16)**	**(610)**	**(626)**
Closing net book amount	**–**	**35**	**1,863**	**1,898**
As at 31 December 2011				
Cost	**33**	**17,384**	**3,323**	**20,740**
Accumulated depreciation	**(33)**	**(17,349)**	**(1,460)**	**(18,842)**
Net book amount	**–**	**35**	**1,863**	**1,898**

	Plant and machinery HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
As at 1 January 2010				
Cost	33	18,125	1,955	20,113
Accumulated depreciation	(33)	(18,090)	(332)	(18,455)
Net book amount	–	35	1,623	1,658
Year ended 31 December 2010				
Opening net book amount	–	35	1,623	1,658
Additions	–	6	1,368	1,374
Depreciation	–	(18)	(518)	(536)
Closing net book amount	–	23	2,473	2,496
As at 31 December 2010				
Cost	33	17,356	3,323	20,712
Accumulated depreciation	(33)	(17,333)	(850)	(18,216)
Net book amount	–	23	2,473	2,496

16. INVESTMENT PROPERTY

	Group	
	2011	2010
	HK$'000	*HK$'000*
As at 1 January		
Cost	**2,075**	2,075
Accumulated depreciation and impairment	**(736)**	(700)
Net book amount	**1,339**	1,375
Year ended 31 December		
Opening net book amount	**1,339**	1,375
Depreciation	**(30)**	(36)
Transfer to non-current assets held for sale	**(1,309)**	–
Closing net book amount	**–**	1,339
As at 31 December		
Cost	**–**	2,075
Accumulated depreciation and impairment	**–**	(736)
Net book amount	**–**	1,339

The investment property is located in Hong Kong and is held under medium-term leases of 10 to 50 years.

Depreciation expense of HK$30,000 (2010: HK$36,000) is included in general and administrative expenses.

17. LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book amounts are analysed as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Outside Hong Kong		
– Medium-term lease of 10 to 50 years	**176,219**	172,672

17. LEASEHOLD LAND AND LAND USE RIGHTS (Continued)

	2011 *HK$'000*	2010 *HK$'000*
As at 1 January		
Cost	**185,390**	43,315
Accumulated amortisation	**(12,718)**	(9,741)
Net book amount	**172,672**	33,574
Year ended 31 December		
Opening net book amount	**172,672**	33,574
Additions	**–**	136,465
Disposal of a subsidiary *(Note 39(b))*	**–**	–
Amortisation	**(4,070)**	(3,131)
Exchange differences	**7,617**	5,764
Closing net book amount	**176,219**	172,672
As at 31 December		
Cost	**189,305**	185,390
Accumulated amortisation and impairment	**(13,086)**	(12,718)
Net book amount	**176,219**	172,672

Amortisation of HK$871,000 (2010: HK$843,000) is included in cost of sales and HK$3,199,000 (2010: HK$2,288,000) is included in general and administrative expenses.

18. SUBSIDIARIES

(a) Investments in subsidiaries

	Company	
	2011 *HK$'000*	2010 *HK$'000*
Unlisted shares, at cost	**399,437**	398,766
Amount due from a subsidiary	**106,766**	106,625
Less: Accumulated impairment losses	**(54,240)**	(54,240)
	451,963	451,151

Amount due from a subsidiary, under investments in subsidiaries, is unsecured, interest free, without fixed term of repayment and not expected to be repaid within the next 12 months. The balance is denominated in Hong Kong dollars.

18. SUBSIDIARIES (Continued)

(b) Amounts due from/to subsidiaries

Amounts due from/to subsidiaries, classified as current assets/liabilities, are unsecured, interest free, and repayable on demand. The balances are denominated in Hong Kong dollars.

(c) Particulars of principal subsidiaries, all of which are unlisted, as at 31 December 2011:

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
338 Apparel Limited	Hong Kong	Hong Kong	Branded product trading	HK$1,000,000	–	100%	100%
338-Apparel Company Limited	British Virgin Islands	United States of America	Liaison services	US$100	–	100%	100%
338 Fashion Co. Limited	Hong Kong	Hong Kong	Branded product distribution and retail	HK$3,000,000	–	100%	100%
338 Fashion (Macau) Company Limited	Macau	Macau	Branded product distribution and retail	MOP25,000	–	100%	100%
A-Grade Garments Manufacturing Corporation	The Philippines	The Philippines	Inactive	P26,000,000	–	100%	100%
Advanced Fashions Technology Limited	British Virgin Islands	United States of America	Liaison services	US$1,000	100%	–	100%
All Asia Garment Industries, Inc.	The Philippines	The Philippines	Factory facilities leasing	P27,425,000	–	100%	100%
All Asia Industrial Co., Ltd.	Taiwan	Taiwan	Sales liaison services and sample making	NT$20,000,000	–	100%	100%
All Asia Industries Co., Ltd. *(Note (iii))*	PRC	PRC	Garment manufacturing	HK$53,500,000	–	100%	100%
All Asia Industries Limited	Hong Kong	Hong Kong	Inactive	HK$4,000 (ordinary)	15%	85%	100%
				HK$1,500,600 (deferred) *(Note (i))*	15%	85%	100%
Apparel Trading & Property Ventures, Inc.	The Philippines	The Philippines	Investment holding	P7,500,000	–	100%	100%
Asia Wide Properties Company, Inc.	The Philippines	The Philippines	Investment holding	P5,500,000	–	100%	100%
Asia Wide Trading Co., Ltd.	Taiwan	Taiwan	General trading and sales liaison services	NT$6,600,000	–	100%	100%
Brilliant Idea International Limited	Hong Kong	Hong Kong	Investment holding	HK$100	–	100%	100%

18. SUBSIDIARIES (Continued)

(c) Particulars of principal subsidiaries, all of which are unlisted, as at 31 December 2011 (Continued):

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
昇韻管理咨詢（深圳）有限公司 *(Note (iii))*	PRC	PRC	Management consultancy services	RMB500,000	–	100%	100%
Chochuen Garment (Shenzhen) Co., Ltd. *(Note (iii))*	PRC	PRC	Garment manufacturing	HK$30,000,000	–	100%	100%
Dress Line Holdings, Inc.	The Philippines	The Philippines	Investment holding	P59,562,500 (common)	–	100%	100%
				P180,000,000 (preferred) *(Note (ii))*	–	100%	100%
Elite Fashion (Hong Kong) Limited	Hong Kong	Hong Kong	Sales and marketing services	HK$2	100%	–	100%
Elkin Trading Limited	Hong Kong	Hong Kong	Agency services	HK$100	–	100%	100%
Excellent Jade Limited	Hong Kong	Hong Kong	Garment trading and manufacturing	HK$10,000	–	100%	100%
Excellent Quality Apparel, Inc.	The Philippines	The Philippines	Garment manufacturing	P15,000,000	–	100%	100%
Fashion Express Company Limited	Thailand	Thailand	Inactive	THB100,000,000	–	99.86%	99.86%
Gold Flower Limited	Hong Kong	Hong Kong	General administrative and supporting services	HK$10,000	–	100%	100%
Great Horizons Property Ventures, Inc.	The Philippines	The Philippines	Investment holding	P8,000,000	–	100%	100%
Guangzhou Excellent Fashion Design Company Limited *(Note (iii))*	PRC	PRC	Garment design and provision of technical services	RMB1,500,000	–	100%	100%
Guangzhou Tristate Industrial Co., Ltd. *(Note (iii))*	PRC	PRC	Garment manufacturing	HK$18,500,000	–	100%	100%
Hefei Tristate Garment Manufacturing Company Limited *(Note (iii))*	PRC	PRC	Garment manufacturing	RMB105,000,000	–	100%	100%
合肥賢法服裝有限公司 *(Note (iii))*	PRC	PRC	Trading of fabric, trims and accessories	RMB1,000,000	–	100%	100%

18. SUBSIDIARIES (Continued)

(c) Particulars of principal subsidiaries, all of which are unlisted, as at 31 December 2011 (Continued):

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
HFT Corp. Limited	Hong Kong	Hong Kong	Investment holding	HK$10,000,000	–	100%	100%
HT Trading Limited	Malaysia	Macau	Garment trading and provision of services	US$1	–	99.87%	99.87%
Hua Thai Manufacturing Public Company Limited	Thailand	Thailand	Garment manufacturing and exporting	THB100,000,000	–	99.87%	99.87%
Hwa Fuh Manufacturing Company (Hong Kong) Limited	Hong Kong	Hong Kong	Investment holding	HK$1,250,000	–	100%	100%
Joint Holdings & Trading Company Limited	Hong Kong	Hong Kong	Investment holding	HK$925 (ordinary)	–	100%	100%
				HK$7,200,075 (deferred) *(Note (i))*	–	100%	100%
Keybird Limited	Hong Kong	Hong Kong	Investment holding	HK$3,000,000	100%	–	100%
Keyear Company Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	100%	–	100%
Prime-Time Company Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
Prosperous Year International Limited	British Virgin Islands	Macau	General services	US$100	–	100%	100%
Quality Time Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	100%	–	100%
Shanghai Tristate Enterprises Co., Ltd. *(Note (iii))*	PRC	PRC	Branded product distribution and retail	RMB180,000,000	–	100%	100%
Sharp Hero International Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Sigsbee Investment Limited	The Republic of Liberia	Hong Kong	Investment holding	US$1	100%	–	100%
Sparkling Ocean Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	100%	–	100%
Tenmo Limited	Hong Kong	Hong Kong	Investment holding	HK$2,000,000	100%	–	100%
Timely Corporate Limited	Hong Kong	Hong Kong	Nominee and secretarial services	HK$1	100%	–	100%

18. SUBSIDIARIES (Continued)

(c) Particulars of principal subsidiaries, all of which are unlisted, as at 31 December 2011 (Continued):

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
Tristate Industrial Co., Ltd.	Taiwan	Taiwan	Sales liaison services and sample making	NT$20,000,000	–	100%	100%
Tristate Trading Limited	Malaysia	Macau	Garment trading	US$1	–	100%	100%
TT&Co Asia Limited	Hong Kong	Hong Kong	General trading	HK$10,000	–	100%	100%
Upgain Limited	British Virgin Islands	Thailand	Investment holding	US$16,000,000	–	99.87%	99.87%
Upgain (Vietnam) Manufacturing Company Limited	Vietnam	Vietnam	Garment manufacturing	US$4,000,000	–	99.87%	99.87%
Velmore Holdings Limited	England	England	Investment holding	GBP558,335.60	–	100%	100%
Velmore Limited	England	England	Design and customer support services	GBP30,000	–	100%	100%
Velmore Sarl	Morocco	Morocco	Quality assurance and warehouse services	Dirhams100,000	–	100%	100%

Notes:

(i) The holders of the deferred shares are not entitled to receive any dividends or other distributions and have no right to vote at any general meeting of the company. They are not entitled to participate in any profits or assets of the company unless upon a winding up, in that case, the holders of the deferred shares have the right to receive the amount paid up on such deferred shares to be distributed out of the surplus assets of the company in accordance with its articles of association.

(ii) The holders of the preferred shares are entitled to receive the same dividends as the common shares and have no right to vote at any general meeting of the company. The preferred shares are redeemable subject to the terms and conditions determined by the board of directors of the company and have preference over common shares in the distribution of assets of the company in the event of liquidation.

(iii) A wholly foreign owned enterprise established in the mainland of the PRC.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2011.

19. INTANGIBLE ASSETS

	Group		
	Goodwill *HK$'000*	License rights *HK$'000*	Total *HK$'000*
As at 1 January 2011			
Cost	20,915	131,991	152,906
Accumulated amortisation	–	(25,716)	(25,716)
Net book amount	20,915	106,275	127,190
Year ended 31 December 2011			
Opening net book amount	20,915	106,275	127,190
Addition	–	132,797	132,797
Amortisation	–	(15,099)	(15,099)
Exchange differences	(117)	–	(117)
Closing net book amount	20,798	223,973	244,771
As at 31 December 2011			
Cost	20,798	264,788	285,586
Accumulated amortisation	–	(40,815)	(40,815)
Net book amount	20,798	223,973	244,771

19. INTANGIBLE ASSETS (Continued)

	Group		
	Goodwill *HK$'000*	License rights *HK$'000*	Total *HK$'000*
As at 1 January 2010			
Cost	21,605	144,815	166,420
Accumulated amortisation and impairment	–	(26,346)	(26,346)
Net book amount	21,605	118,469	140,074
Year ended 31 December 2010			
Opening net book amount	21,605	118,469	140,074
Derecognition of cost	–	(11,085)	(11,085)
Derecognition of accumulated amortisation and impairment	–	11,085	11,085
Amortisation	–	(12,194)	(12,194)
Exchange differences	(690)	–	(690)
Closing net book amount	20,915	106,275	127,190
As at 31 December 2010			
Cost	20,915	131,991	152,906
Accumulated amortisation	–	(25,716)	(25,716)
Net book amount	20,915	106,275	127,190

Amortisation of HK$15,099,000 (2010: HK$12,194,000) is included in the selling and distribution expenses in the consolidated income statement.

Notes:

(a) Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU") under the garment manufacturing segment. The recoverable amount of a CGU is determined based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering the financial year 2012. Cash flows from 2013 onwards are projected based on year 2012 financial budgets with no growth for nine years thereafter. In 2010, pre-tax cash flow projections were based on financial budgets for the financial year 2011 and no growth for the nine years thereafter. The forecast profitability is based on past performance and expectation for market development. Future cash flows are discounted at 10% per annum (2010: 10% per annum). The discount rate used is pre-tax and reflects specific risks relating to the CGU. As at 31 December 2011, no impairment of goodwill was considered as necessary (2010: Nil).

(b) License rights represent capitalisation of the minimum contractual obligation at the time of inception. They are recognised based on discount rates equal to the Group's weighted average borrowing rates of approximately 3.0% to 5.0% per annum at the dates of inception.

20. OTHER LONG-TERM ASSETS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Long-term rental deposits	**5,938**	7,891	**–**	–
Deposits with a financial institution *(Note)*	**4,244**	5,749	**4,244**	5,749
Club debentures	**1,990**	1,690	**–**	–
	12,172	15,330	**4,244**	5,749

Note:

Deposits with a financial institution are denominated in Hong Kong dollars with an effective interest rate of 4.9% per annum (2010: 5.3% per annum).

21. INVESTMENTS IN ASSOCIATES

	Group	
	2011	2010
	HK$'000	*HK$'000*
As at 1 January/31 December	**–**	–

Particulars of the associates, which are unlisted, as at 31 December 2011 are as follows:

Name of associates	Place of incorporation/ establishment	% interest held indirectly
MAC International Sarl	Morocco	50%
Teneco Sarl	Morocco	28.54%

22. INVENTORIES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Raw materials	**106,664**	124,723
Work-in-progress	**96,769**	94,113
Finished goods	**196,555**	79,701
	399,988	298,537

Net write-down of inventories amounting to HK$9,769,000 (2010: HK$6,419,000) was included in cost of sales.

23. ACCOUNTS RECEIVABLE AND BILLS RECEIVABLE

The aging of accounts receivable and bills receivable based on invoice date is as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Less than 3 months	**354,586**	309,941
3 months to 6 months	**3,327**	1,934
Over 6 months	**490**	726
	358,403	312,601
Less: Provision for impairment	**(490)**	(726)
	357,913	311,875

Majority of trade receivables are with customers having an appropriate credit history and are on open account with customers. The Group grants its customers credit terms mainly ranging from 30 to 60 days.

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

As at 31 December 2011, accounts receivable and bills receivable of HK$131,412,000 (2010: HK$97,887,000) were past due but considered not to be impaired. These relate to a number of customers for whom there is no history of default. The aging of these receivables based on invoice date is as follows:

	2011	2010
	HK$'000	*HK$'000*
Less than 3 months	**128,085**	95,953
3 months to 6 months	**3,327**	1,934
	131,412	97,887

As at 31 December 2011, accounts receivable and bills receivable over 6 months of HK$490,000 (2010: HK$726,000) were considered impaired and had been fully provided for.

The risk of accounts receivable and bills receivable that are neither past due nor impaired as at 31 December 2011 becoming impaired is low as most of the balances related to customers with no history of default.

23. ACCOUNTS RECEIVABLE AND BILLS RECEIVABLE (Continued)

Movements of provision for impairment of accounts receivable and bills receivable are as follows:

	2011 **HK$'000**	2010 HK$'000
At 1 January	**726**	4,427
Provision for/(reversal of) impairment	**203**	(3,314)
Receivables written off during the year as uncollectible	**(439)**	(387)
At 31 December	**490**	726

The provision for/(reversal of) impaired receivables has been included in general and administrative expenses. Amounts charged to the allowance account are generally written off when there is no expectation of recovery.

The carrying amounts of accounts receivable and bills receivable are denominated in the following currencies:

	2011 **HK$'000**	2010 HK$'000
United States dollars	**314,734**	276,486
Renminbi	**38,769**	32,917
Hong Kong dollars	**3,338**	2,043
Others	**1,072**	429
	357,913	311,875

24. FORWARD FOREIGN EXCHANGE CONTRACTS

	Group	
	2011 **HK$'000**	2010 HK$'000
Included in current assets – cash flow hedges *(Note (i))*	**1,447**	3,954
Included in current liabilities – cash flow hedge *(Note (i))*	**(341)**	(836)
– net investment hedge *(Note (ii))*	**–**	–
	(341)	(836)

The maximum exposure to credit risk is the fair value (as stated above) of the forward foreign exchange contracts under current assets in the consolidated statement of financial position. The maturity dates of the outstanding forward foreign exchange contracts are within one year and are classified as current assets and liabilities.

24. FORWARD FOREIGN EXCHANGE CONTRACTS (Continued)

Notes:

(i) Forward foreign exchange contracts – cash flow hedges

As at 31 December 2011, the notional principal amount of the outstanding forward foreign exchange contracts under cash flow hedges was HK$267,040,000 (2010: HK$232,456,000). The hedges related to highly probable forecasted purchases, inter-group service fees and processing income denominated in foreign currencies which are expected to occur at various dates within a 12-month period. Gains and losses of forward foreign exchange contracts recorded in the hedging reserve in the consolidated statement of comprehensive income for the year ended 31 December 2011 are to be recognised within cost of sales and general and administrative expenses in the consolidated income statement when the underlying hedged transactions affect the consolidated income statement.

The forward foreign exchange contracts entered during 2010 and 2011 were determined to be effective hedges and no gain or loss relating to the ineffective portion was recognised in the consolidated income statement.

(ii) Forward foreign exchange contracts – net investment hedge

During the period from March 2008 to March 2010, the Group entered into forward foreign exchange contracts to hedge against its net investment in a subsidiary group in the United Kingdom. Pursuant to the Group's hedging strategy, the Group ceased hedging the subsidiary group from March 2010. The cumulative gains and losses of the forward foreign exchange contracts which were recognised in the translation reserve when the hedge was effective, shall remain in the translation reserve and are to be recognised in the consolidated income statement when the foreign subsidiary group is disposed.

In 2010, in relation to the net investment hedge, a gain of HK$25,000 in respect of the ineffective portion of the net investment hedge and a loss arising from the change in fair value of the portion of derivative forward instrument not qualified as net investment hedge of HK$52,000 were included in other gains/(losses).

25. PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2011 **HK$'000**	2010 HK$'000	**2011** **HK$'000**	2010 HK$'000
Tax reserve certificates purchased under protective assessments *(Note 8)*	**40,396**	38,101	**–**	–
Advance payments for purchases of inventories	**44,242**	42,348	**–**	–
Rental deposits	**9,373**	8,524	**–**	–
Value added tax and custom duties recoverable	**5,033**	4,016	**–**	–
Income tax recoverable	**42**	416	**–**	–
Prepaid operating expenses	**13,467**	11,825	**118**	123
Others	**10,926**	7,528	**490**	706
	123,479	112,758	**608**	829

Note:

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

26. CASH AND BANK BALANCES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Short-term bank deposits	**361,537**	274,359	**–**	–
Cash at bank and on hand	**234,503**	185,054	**2,497**	8,955
Cash and cash equivalents	**596,040**	459,413	**2,497**	8,955
Bank structured deposits	**33,305**	–	**–**	–
Pledged bank deposits	**–**	590	**–**	–
Total cash and bank balances	**629,345**	460,003	**2,497**	8,955

The effective interest rate on short-term bank deposits was 4.0% per annum (2010: 2.0% per annum). The effective interest rate on cash at bank was 0.1% per annum (2010: 0.1% per annum). The short-term bank deposits mainly have maturities ranging from one day to three months at inception.

Bank structured deposits are hybrid instruments that include a non-derivative Renminbi deposits host contract and an embedded derivative. The embedded derivative causes the cash flows that otherwise would be required by the contract to be modified according to the movement of a foreign exchange rate. The embedded derivative is separated from the host contract and accounted for as a derivative at fair value while the host contract is accounted for as a financial asset at amortised cost. At the date of inception of contract and 31 December 2011, the fair value of the embedded derivative is insignificant.

The effective interest rate on bank structured deposits was 5.9% per annum (2010: Nil). The bank structured deposits have maturities of three months at inception.

As at 31 December 2010, short-term bank deposits amounted to HK$590,000 were pledged as collateral for certain foreign currency exchange contract facilities granted to the Group.

The carrying amounts of cash and bank balances are denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Renminbi	**512,706**	354,781	**–**	–
United States dollars	**81,269**	68,609	**533**	7,682
Hong Kong dollars	**12,252**	18,151	**1,964**	1,264
Pound Sterling	**5,382**	6,158	**–**	–
Others	**17,736**	12,304	**–**	9
Total	**629,345**	460,003	**2,497**	8,955

The Group's cash and bank balances denominated in Renminbi were deposited with banks in the Mainland China. The conversion of these Renminbi denominated balances into foreign currencies and the remittance of funds out of the Mainland China is subject to the rules and regulations of foreign exchange control promulgated by the Mainland China Government.

27. ACCOUNTS PAYABLE AND BILLS PAYABLE

The aging of accounts payable and bills payable based on invoice date is as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Less than 3 months	**245,064**	181,520
3 months to 6 months	**6,584**	4,857
Over 6 months	**5,587**	2,928
	257,235	189,305

Majority of payment terms with suppliers are within 60 days.

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

The carrying amounts of accounts payable and bills payable are denominated in the following currencies:

	2011	2010
	HK$'000	*HK$'000*
United States dollars	**182,704**	112,348
Hong Kong dollars	**32,309**	32,293
Renminbi	**36,569**	33,470
Others	**5,653**	11,194
	257,235	189,305

28. ACCRUALS AND OTHER PAYABLES

Accruals and other payables mainly consist of the current portion of license fees payable, payables for construction in progress, accrued employment expenses, estimated settlement cost in respect of tax audit (Note 8) and other operating expenses.

29. BANK BORROWINGS

As at 31 December 2011, the Group's bank borrowings were unsecured, of which approximately HK$194,040,000 (2010: HK$189,833,000) were covered by corporate guarantees given by the Company. The bank borrowings were due for repayment within three months. As at 31 December 2011, bank borrowings of HK$137,458,000 (2010: HK$140,905,000) and HK$56,582,000 (2010: HK$48,928,000) bore interest at fixed rates and floating rates respectively. The interest rates of the bank borrowings ranged from 0.8% to 1.5% per annum (2010: 0.7% to 1.5% per annum).

29. BANK BORROWINGS (Continued)

Bank borrowings are denominated in the following currencies:

	Group	
	2011	2010
	HK$'000	*HK$'000*
United States dollars	**112,258**	123,054
Hong Kong dollars	**81,782**	66,779
	194,040	189,833

The fair value of the Group's bank borrowings equal their carrying amount, as the impact of discounting is not significant due to their short-term maturity.

30. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Defined contribution plans *(Note (a))*	**957**	1,050	**–**	–
Defined benefit plans *(Note (b))*	**(4,555)**	(4,234)	**–**	–
Long service payment liabilities *(Note (c))*	**6,307**	6,523	**–**	–
Other retirement benefits	**2,881**	5,625	**2,881**	5,625
	5,590	8,964	**2,881**	5,625
Included in non-current assets	**(5,606)**	(5,140)	**–**	–
Included in non-current liabilities	**11,196**	14,104	**2,881**	5,625
	5,590	8,964	**2,881**	5,625

Notes:

(a) Defined contribution plans

During the year ended 31 December 2011, forfeited contributions of HK$261,000 (2010: HK$394,000) were utilised, and HK$97,000 (2010: Nil) outstanding as at 31 December 2011 could be utilised to reduce future contributions.

The Group operates/participates in the following defined contribution plans:

(i) A defined contribution scheme for employees in Hong Kong, under which the Group and its employee each contributes 5% of the employee's salaries. The forfeited contributions made by the Group and the related accrued interest are used to reduce the Group's future employer contribution.

(ii) The Mandatory Provident Fund Scheme for employees in Hong Kong, under which the Group and its employee each makes monthly contribution to the scheme at 5% of the qualifying earnings of the employee, subject to a monthly cap of HK$1,000.

(iii) The Group's subsidiaries in the Mainland China contribute 10% to 22% of the basic salaries of their employees to retirement schemes operated by municipal governments. Under the schemes, the employees also contribute 8% of their basic salaries.

30. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS (Continued)

Notes (Continued):

(a) Defined contribution plans (Continued)

(iv) The Group's subsidiaries in Thailand operate defined contribution plans, under which the Group generally contributes 5% of participating employees' salaries and the employees contribute 5% of their salaries.

(v) From 1 July 2005, the Group's subsidiaries in Taiwan operate defined contribution plans pursuant to Labour Pension Act as a choice available to their employees. Under the plans, the Group generally contributes 6% of the participating employees' salaries to their personal accounts kept by the Labour Insurance Bureau on a monthly basis. Contributions from employees are on a discretionary basis.

(vi) The Group's subsidiaries in the UK operate a defined contribution scheme for employees in the UK, under which the subsidiaries contribute 7.5% of the employees' monthly salaries.

Other than the mandatory contributions made by the Group under the respective defined contribution plans, the Group has no further obligations for the actual pension payments or any post retirement benefits.

(b) Defined benefit plans

The Group operates/participates in the following defined benefit plans:

(i) A defined benefit retirement plan for the Group's subsidiaries in the Philippines. The Group bears the full cost of all plan benefits. The benefits are based on a prescribed percentage of the final monthly basic salary and the period of credited services.

(ii) A defined benefit retirement scheme operated by the Group's subsidiaries in Taiwan. The Group bears the full cost of all benefits and the assets for the benefits are invested through the Bank of Taiwan (formerly known as "Central Trust of China"). The benefits are based on the average monthly salary for the six months immediately preceding the date of cessation of service with the Group.

The latest actuarial valuations of the above plans were performed by HSBC Life (International) Limited, a professionally qualified independent actuarial firm, as at 31 December 2011 using the projected unit credit method. Based on the actuarial reports, the aggregate market value of the plan assets as at 31 December 2011 was HK$23,306,000, representing approximately 173% of the actuarial accrued liabilities at that date.

The amounts recognised in the consolidated statement of financial position are as follows:

	2011 ***HK$'000***	2010 *HK$'000*
Present value of funded obligations	**13,471**	14,067
Fair value of plan assets	**(23,306)**	(25,110)
	(9,835)	(11,043)
Unrecognised actuarial gain	**5,280**	6,809
Net assets	**(4,555)**	(4,234)
Represented by:		
Net assets	**(5,387)**	(5,140)
Net liabilities	**832**	906
	(4,555)	(4,234)

30. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS (Continued)

Notes (Continued):

(b) Defined benefit plans (Continued)

The amounts recognised in the consolidated income statement are as follows:

	2011 **HK$'000**	2010 HK$'000
Current service cost	**626**	563
Interest cost	**377**	348
Expected return on plan assets	**(957)**	(864)
Net actuarial gain recognised	**(422)**	(518)
Total, included in employment expenses	**(376)**	(471)
Actual return on plan assets	**816**	867

Changes in the present value of the defined benefit obligations are as follows:

	2011 **HK$'000**	2010 HK$'000
As at 1 January	**14,067**	12,312
Current service cost	**626**	563
Interest cost	**377**	348
Actuarial loss	**881**	891
Exchange differences	**(387)**	1,179
Benefits paid from the plan	**(2,093)**	(1,226)
As at 31 December	**13,471**	14,067
Experience adjustments on plan liabilities	**(380)**	(461)

Changes in the fair value of plan assets are as follows:

	2011 **HK$'000**	2010 HK$'000
As at 1 January	**25,110**	23,182
Expected return on plan assets	**957**	864
Actuarial (loss)/gain	**(141)**	3
Contributions by employer	**163**	191
Exchange differences	**(690)**	2,096
Benefits paid from the plan	**(2,093)**	(1,226)
As at 31 December	**23,306**	25,110
Experience adjustments on plan assets	**(141)**	3

30. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS (Continued)

Notes (Continued):

(b) Defined benefit plans (Continued)

The principal actuarial assumptions used are as follows:

	2011	2010
Discount rate	**1% to 6%**	1% to 7%
Expected rate of return on plan assets	**3% to 5%**	4% to 5%
Expected rate of future salary increase	**3% to 5%**	3% to 5%

The Group expects to contribute HK$199,000 to its defined benefit plans in the year ending 31 December 2012 (2011: HK$291,000).

The major categories of plan assets as a percentage of total plan assets are as follows:

	2011	2010
Deposits with financial institutions	**16.9%**	26.4%
Bonds	**40.8%**	39.7%
Stocks	**11.5%**	6.7%
Other assets	**30.8%**	27.2%

(c) Long service payment liabilities

(i) Under the Hong Kong Employment Ordinance, the Group is obliged in certain circumstances to make long service payments on cessation of employment to certain employees in Hong Kong who have completed at least five years of service with the Group. The amount payable is dependent on the employee's final salary (or, at the option of the employee, the average salary for the 12 months prior to cessation of employment, subject to an average monthly salary of HK$22,500) and years of service, and is reduced by entitlements accrued under the Group's defined contribution retirement scheme.

(ii) Under the Labor Protection Act of Thailand (A.D. 1998), the Group is obliged to make severance pay on cessation of employment to the employees who have been regularly employed by the Group for more than 120 days. The amount payable is dependent on the employee's final salary and years of service. The Group does not set aside any asset for the benefit obligation arising from severance pay.

(iii) Under the labour law of Vietnam, the Group is obliged to make severance pay on cessation of employment to the employees who have been employed by the Group for more than 12 months. The amount payable is dependent on the employee's average salary for the six months prior to the termination and years of service up to 31 December 2008. The Group does not set aside any asset for the benefit obligation arising from severance pay.

The latest actuarial valuations of the Group's major obligations of long service payment liabilities as at 31 December 2011 were carried out by a professionally qualified independent actuarial firm, HSBC Life (International) Limited, using the projected unit credit method.

	2011 ***HK$'000***	2010 *HK$'000*
Present value of unfunded obligations	**13,462**	11,132
Unrecognised actuarial loss	**(7,155)**	(4,609)
Liability in the statement of financial position	**6,307**	6,523
Represented by:		
Net assets	**(219)**	–
Net liabilities	**6,526**	6,523
	6,307	6,523
Current services cost	**267**	230
Interest cost	**481**	481
Actuarial loss recognised	**417**	420
Total, included in employment expenses	**1,165**	1,131

30. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS (Continued)

Notes (Continued):

(c) **Long service payment liabilities** (Continued)

Movement in the present value of unfunded obligations:

	2011 HK$'000	2010 HK$'000
As at 1 January	11,132	9,172
Current service cost	267	230
Interest cost	481	481
Benefit paid	(1,081)	(329)
Actuarial loss	3,288	648
Exchange differences	(625)	930
As at 31 December	13,462	11,132
Experience adjustments on unfunded obligations	1,126	242

The principal actuarial assumptions used are as follows:

	2011	2010
Discount rate	1% to 13%	2% to 12%
Expected rate of future salary increase	1% to 7%	1% to 7%

31. LICENSE FEES PAYABLE

	Group	
	2011 HK$'000	2010 HK$'000
Within one year	24,183	17,808
In the second year	53,178	22,676
In the third to fifth year	148,876	74,481
	226,237	114,965
Less: Imputed interest on license fees payable	(19,698)	(11,538)
Present value	206,539	103,427
Less: Current portion included in accruals and other payables	(24,183)	(17,808)
Non-current portion	182,356	85,619
Estimated fair value of:		
Current portion	24,183	17,808
Non-current portion	186,298	90,846

31. LICENSE FEES PAYABLE (Continued)

Notes:

(a) License fees payable represents the contractual obligations at the time of recognition. It is recognised based on discount rates of 3.0% to 5.0% per annum at the date of inception of such obligations, which were determined by reference to the Group's weighted average external borrowing rate.

(b) During the year ended 31 December 2010, a subsidiary of the Company has reached an agreement with a licensor for early termination of a license agreement. Pursuant to the agreement, the licensor agreed, inter-alias, to waive the minimum royalty payable by the Group as stipulated in the original license agreement. In this connection, the Group has derecognised the related intangible assets (which had been fully provided for in 2009) and the license fees payable amounted to HK$10,877,000. The license fees payable derecognised less the termination costs, amounted to HK$8,378,000, was recognised as net gain on early termination of the license agreement in the consolidated income statement.

The carrying amounts of license fees payable are denominated in the following currencies:

	2011	2010
	HK$'000	*HK$'000*
United States dollars	**77,820**	89,019
Euro	**128,719**	14,408
	206,539	103,427

The estimated fair value as at 31 December 2011 was calculated based on discount rates of 2.0% to 2.8% (2010: 1.7% to 2.4%) per annum, which were determined by reference to the external borrowing rate to the Group.

32. DEFERRED INCOME TAX ASSETS/LIABILITIES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The balances shown in the statement of financial position, after appropriate offsetting, are as follows:

	Group		**Company**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deferred income tax assets to be recovered:				
– After 12 months	**16,314**	8,911	**51**	2
– Within 12 months	**13,832**	11,080	**–**	–
	30,146	19,991	**51**	2
Deferred income tax liabilities to be realised:				
– After 12 months	**(50,698)**	(58,148)	**–**	–
– Within 12 months	**(3,479)**	(2,201)	**–**	–
	(54,177)	(60,349)	**–**	–
Net deferred income tax (liabilities)/assets	**(24,031)**	(40,358)	**51**	2

32. DEFERRED INCOME TAX ASSETS/LIABILITIES (Continued)

The movements in deferred income tax assets and liabilities, without taking into consideration the offsetting of balance with the same tax jurisdiction, are as follows:

Deferred income tax liabilities

	Group									
	Accelerated tax depreciation		Withholding tax for distribution of retained earnings of overseas subsidiaries		Fair value adjustments on business combination		Hedging		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
As at 1 January	**4,473**	4,708	**33,924**	34,298	**29,457**	28,760	**715**	3	**68,569**	67,769
Exchange differences	**–**	–	**–**	491	**(1,480)**	3,029	**–**	–	**(1,480)**	3,520
Recognised in the consolidated income statement	**(137)**	(235)	**(4,139)**	(865)	**(3,479)**	(2,332)	**–**	–	**(7,755)**	(3,432)
(Credited)/charged to other comprehensive income	**–**	–	**–**	–	**–**	–	**(615)**	712	**(615)**	712
As at 31 December	**4,336**	4,473	**29,785**	33,924	**24,498**	29,457	**100**	715	**58,719**	68,569

Deferred income tax assets

	Group							
	Provisions		Decelerated tax depreciation		Tax losses		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
As at 1 January	**19,625**	8,880	**6,997**	5,889	**1,589**	2,636	**28,211**	17,405
Exchange differences	**(208)**	417	**–**	–	**(6)**	292	**(214)**	709
Recognised in the consolidated income statement	**6,066**	10,328	**908**	1,108	**(283)**	(1,339)	**6,691**	10,097
As at 31 December	**25,483**	19,625	**7,905**	6,997	**1,300**	1,589	**34,688**	28,211

The Company's deferred income tax asset was arised from decelerated tax depreciation. During the year ended 31 December 2011, HK$49,000 was credited (2010: HK$111,000 was charged) to the income statement.

32. DEFERRED INCOME TAX ASSETS/LIABILITIES (Continued)

Deferred income tax assets (Continued)

Deferred income tax assets are recognised for tax losses carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2011, the Group did not recognise deferred income tax assets of HK$10,979,000 (2010: HK$15,251,000) for tax losses that can be carried forward against future taxable income. Cumulative tax losses of HK$46,942,000 (2010: HK$73,836,000) can be carried forward indefinitely; cumulative tax losses of HK$12,339,000 (2010: HK$10,300,000) will expire (if not utilised) within the next five years; and cumulative tax losses of HK$156,000 (2010: HK$1,903,000) will expire (if not utilised) from the sixth to tenth years.

33. OTHER LONG-TERM LIABILITIES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Within one year	**472**	5,772
In the second year	**1,259**	822
In the third to fifth year	**–**	343
	1,731	6,937
Less: Imputed interest on other long-term liabilities	**(75)**	(398)
Present value	**1,656**	6,539
Less: Current portion included in accruals and other payables	**(472)**	(5,772)
Non-current portion	**1,184**	767
Estimated fair value of:		
Current portion	**472**	5,772
Non-current portion	**1,221**	1,103

Other long-term liabilities represent provision for onerous lease and other payable relating to leased premises located in the UK. Such liabilities are recognised based on discount rates of 2.4% to 5.0% per annum at the date of recognising such obligations, which were determined by reference to the Group's weighted average external borrowing rate.

The estimated fair value as at 31 December 2011 was calculated based on a discount rate of 2.0% (2010: 2.4%) per annum, which was determined by reference to the external borrowing rate to the Group.

The carrying amounts of other long-term liabilities are denominated in Pound Sterling.

34. SHARE CAPITAL

	2011	2010
	HK$'000	*HK$'000*
Authorised:		
500,000,000 (2010: 500,000,000) shares of HK$0.10 each	**50,000**	50,000
Issued and fully paid:		
As at 1 January	**26,874**	26,874
Issue of shares upon exercise of share options	**140**	–
As at 31 December		
270,135,253 (2010: 268,735,253) shares of HK$0.10 each	**27,014**	26,874

35. RESERVES

Group

	Share premium	Capital reserve	Statutory reserves	Translation reserve	Share option reserve	Hedging reserve	Contributed surplus	General reserve	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2011	8,124	112,388	67,660	91,606	1,126	2,404	265,630	117,413	489,996	1,156,347
Comprehensive income										
Profit for the year	–	–	–	–	–	–	–	–	249,766	249,766
Other comprehensive income										
Net fair value change on cash flow hedges	–	–	–	–	–	(2,014)	–	–	–	(2,014)
Deferred income tax credited to other comprehensive income *(Note 32)*	–	–	–	–	–	615	–	–	–	615
Realisation upon disposal of a subsidiary	–	–	–	(37)	–	–	–	–	–	(37)
Currency translation differences	–	–	–	30,652	–	–	–	–	–	30,652
Total comprehensive income	–	–	–	30,615	–	(1,399)	–	–	249,766	278,982
Transactions with owners										
Transfer	–	–	10,490	–	–	–	–	–	(10,490)	–
Issue of shares	2,994	–	–	–	(755)	–	–	–	–	2,239
Share option scheme – value of employee services	–	–	–	–	671	–	–	–	–	671
Dividends paid to equity holders of the Company	–	–	–	–	–	–	–	–	(104,979)	(104,979)
Total transactions with owners	2,994	–	10,490	–	(84)	–	–	–	(115,469)	(102,069)
As at 31 December 2011	11,118	112,388	78,150	122,221	1,042	1,005	265,630	117,413	624,293	1,333,260
Representing:										
Proposed dividend									59,454	
Others									564,839	
									624,293	

35. RESERVES (Continued)

Group (Continued)

	Share premium HK$'000	Capital reserve HK$'000	Statutory reserves HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Hedging reserve HK$'000	Contributed surplus HK$'000	General reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 January 2010	8,124	112,388	67,930	50,124	771	1,381	265,630	117,413	335,709	959,470
Comprehensive income										
Profit for the year	–	–	–	–	–	–	–	–	196,735	196,735
Other comprehensive income										
Fair value gain on net investment hedge	–	–	–	921	–	–	–	–	–	921
Net fair value change on cash flow hedges	–	–	–	–	–	1,735	–	–	–	1,735
Deferred income tax charged to other comprehensive income *(Note 32)*	–	–	–	–	–	(712)	–	–	–	(712)
Currency translation differences	–	–	–	40,561	–	–	–	–	–	40,561
Total comprehensive income	–	–	–	41,482	–	1,023	–	–	196,735	239,240
Transactions with owners										
Transfer upon disposal of a subsidiary	–	–	(4,371)	–	–	–	–	–	4,371	–
Transfer	–	–	4,101	–	–	–	–	–	(4,101)	–
Share options granted to employees lapsed	–	–	–	–	(280)	–	–	–	280	–
Share option scheme – value of employee services	–	–	–	–	635	–	–	–	–	635
Dividends paid to equity holders of the Company	–	–	–	–	–	–	–	–	(42,998)	(42,998)
Total transactions with owners	–	–	(270)	–	355	–	–	–	(42,448)	(42,363)
As at 31 December 2010	8,124	112,388	67,660	91,606	1,126	2,404	265,630	117,413	489,996	1,156,347
Representing:										
Proposed dividend									64,496	
Others									425,500	
									489,996	

35. RESERVES (Continued)

Company

	Share premium HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	General reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 January 2011	**8,124**	**1,126**	**321,020**	**110,000**	**197,223**	**637,493**
Comprehensive income						
Profit for the year	**–**	**–**	**–**	**–**	**99,501**	**99,501**
Total comprehensive income	**–**	**–**	**–**	**–**	**99,501**	**99,501**
Transactions with owners						
Issue of shares	**2,994**	**(755)**	**–**	**–**	**–**	**2,239**
Share option scheme – value of employee services	**–**	**671**	**–**	**–**	**–**	**671**
Dividends paid to equity holders of the Company	**–**	**–**	**–**	**–**	**(104,979)**	**(104,979)**
Total transactions with owners	**2,994**	**(84)**	**–**	**–**	**(104,979)**	**(102,069)**
As at 31 December 2011	**11,118**	**1,042**	**321,020**	**110,000**	**191,745**	**634,925**
Representing:						
Proposed dividend					**59,454**	
Others					**132,291**	
					191,745	

	Share premium HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	General reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 January 2010	8,124	771	321,020	110,000	166,606	606,521
Comprehensive income						
Profit for the year	–	–	–	–	73,375	73,375
Total comprehensive income	–	–	–	–	73,375	73,375
Transactions with owners						
Share options granted to employees lapsed	–	(280)	–	–	240	(40)
Share option scheme – value of employee services	–	635	–	–	–	635
Dividends paid to equity holders of the Company	–	–	–	–	(42,998)	(42,998)
Total transactions with owners	–	355	–	–	(42,758)	(42,403)
As at 31 December 2010	8,124	1,126	321,020	110,000	197,223	637,493
Representing:						
Proposed dividend					64,496	
Others					132,727	
					197,223	

35. RESERVES (Continued)

(a) Contributed surplus represents the excess in value of shares acquired in consideration for the issue of the Company's shares over the nominal value of those shares issued. Under Companies Act 1981 of Bermuda (as amended), contributed surplus is distributable.

(b) Subsidiaries incorporated in Taiwan are required to set aside 10% of their net profit each year to reserve, according to Company Law in Taiwan. This appropriation is made in the following year until the accumulated reserve equals the paid-in capital. Such reserve can be used to offset a deficit or, when it has reached 50% of the paid-in capital, up to 50% thereof may be transferred to capital. The amount set aside is included under statutory reserve. Subsidiaries in Taiwan did not transfer any amount to the statutory reserve during the year ended 31 December 2011 (2010: Nil).

(c) The laws and regulations in the Mainland China require wholly foreign owned enterprises established in the Mainland China to provide for statutory reserves which are appropriated from net profit, based on profit reported in the statutory accounts. Certain subsidiaries in the Mainland China are required to allocate at least 10% of their after-tax profit to statutory reserves until the reserves have reached 50% of their registered capital. Statutory reserves can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. During the year ended 31 December 2011, subsidiaries in the Mainland China have transferred HK$10,490,000 (2010: HK$4,101,000) to statutory reserves.

(d) Capital reserve mainly relates to the amount transferred from retained earnings in connection with a declaration of stock dividend by a subsidiary during the year ended 31 December 2000.

36. SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "2007 Share Option Scheme"), which will remain in force for ten years up to April 2017. Share options may be granted from time to time as determined by the Board, to directors and employees of the Group. The grantee is required to pay HK$1.00 upon acceptance of the options. The subscription price for the shares of the Company, which are the subject of the options, shall not be less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price and timing for the exercise of the option will be determined by the Board at the time the option is offered. The options may only be exercised if the grantee remains a director or an employee of the Group. The Group has no legal or constructive obligations to repurchase or settle these options in cash.

36. SHARE OPTION SCHEME (Continued)

Details of the share options granted pursuant to the 2007 Share Option Scheme and the share options outstanding at 31 December 2011 are as follows:

	2011		2010	
	Average exercise price per share *HK$*	**Number of options**	Average exercise price per share *HK$*	Number of options
As at 1 January	**1.69**	**2,956,000**	1.63	2,992,000
Granted	**4.01**	**572,000**	1.90	956,000
Exercised *(Note)*	**1.70**	**(1,400,000)**	–	–
Lapsed	**–**	**–**	1.71	(992,000)
As at 31 December	**2.31**	**2,128,000** *(Note (a))*	1.69	2,956,000 *(Note (b))*
Exercisable at 31 December	**2.03**	**895,000** *(Note (a))*	1.68	1,413,000 *(Note (b))*

Notes:

(a) In 2011, exercise notices in respect of a total of 112,000 shares had been tendered by an option holder before 31 December 2011. The relevant 112,000 shares were issued by the Company on 9 January 2012.

(b) In 2010, exercise notices in respect of a total of 179,000 shares had been tendered by option holders before 31 December 2010. The relevant 179,000 shares were issued by the Company on 6 January 2011.

36. SHARE OPTION SCHEME (Continued)

The share options outstanding at the end of the year have the following vesting and expiry dates:

		Number of options	
Vesting date	**Expiry date**	**2011**	2010
02/07/2008	01/07/2013	**85,000**	174,000
02/07/2009	01/07/2013	**85,000**	174,000
02/07/2010	01/07/2013	**85,000**	174,000
02/07/2011	01/07/2013	**85,000**	174,000
14/09/2009	13/09/2014	**–**	326,000
14/09/2010	13/09/2014	**–**	326,000
14/09/2011	13/09/2014	**206,000**	326,000
14/09/2012	13/09/2014	**326,000**	326,000
21/06/2010	20/06/2015	**122,000** *(Note)*	239,000
21/06/2011	20/06/2015	**122,000** *(Note)*	239,000
21/06/2012	20/06/2015	**239,000**	239,000
21/06/2013	20/06/2015	**239,000**	239,000
13/06/2011	12/06/2016	**105,000**	–
13/06/2012	12/06/2016	**143,000**	–
13/06/2013	12/06/2016	**143,000**	–
13/06/2014	12/06/2016	**143,000**	–
		2,128,000	2,956,000

Note:

Exercise notice in respect of 56,000 shares for each of the two tranches had been tendered by an option holder before 31 December 2011. The relevant shares were issued by the Company on 9 January 2012.

36. SHARE OPTION SCHEME (Continued)

The fair value of options granted during the year of 2011 determined using the Trinomial valuation model was HK$1.11 per option (2010: HK$0.71 per option). The significant inputs into the model are as follows:

	Year in which share options granted	
	2011	2010
Share price at the grant date	**HK$3.95**	HK$1.90
Exercise price	**HK$4.01**	HK$1.90
Dividend yield	**9%**	9%
Volatility	**57%**	73%
Annual risk-free interest rate	**1.3%**	1.8%

The volatility at the grant date, which measured the standard deviation of expected share price returns, is based on statistics of daily volatility of comparable companies within the industry over the past two years. The aggregate fair value of the above options granted during the year amounted to HK$633,000 (2010: HK$676,000) is to be recognised as employee expense over the vesting periods together with a corresponding increase in equity.

The total amount of employee expenses recognised in the consolidated income statement for the year ended 31 December 2011 in relation to the Share Option Scheme amounted to HK$671,000 (2010: HK$635,000).

37. COMMITMENTS

(a) Operating lease commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings, as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Not later than 1 year	**57,865**	34,626
Later than 1 year and not later than 5 years	**117,347**	32,588
Later than 5 years	**10,083**	11,189
	185,295	78,403

(b) Capital commitments

The Group had capital commitments in relation to renovation of office building and purchase of equipment, as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Contracted but not provided for	**14,886**	4,407
Authorised but not contracted for	**10,437**	–
	25,323	4,407

38. RELATED PARTY TRANSACTIONS

The Group is controlled by Silver Tree Holdings Inc., which owns approximately 67.54% of the Company's issued shares as at 31 December 2011.

(a) Transactions with related parties

The following is a summary of significant related party transactions which were carried out in the normal course of the Group's business:

		Group	
		2011	2010
	Note	***HK$'000***	*HK$'000*
Associates			
Processing charges	(i)	**–**	2,993
A related company			
Rental expense	(ii)	**5,524**	4,457

Notes:

(i) Processing charges paid to associates were determined on terms mutually agreed with the associates.

(ii) The entire issued share capital of TDB Company Limited, a related company, is held by a discretionary trust of which two directors of the Company are eligible beneficiaries. Rental expense was for the leasing of factory, storage and ancillary office and was determined by reference to the lease agreement entered.

(b) Transactions with subsidiaries

	Company	
	2011	2010
	HK$'000	*HK$'000*
Transactions with subsidiaries		
Service fee charged to subsidiaries	**42,311**	38,536
Service fee charged by a subsidiary	**1,759**	1,808

(c) Key management compensation

	Group	
	2011	2010
	HK$'000	*HK$'000*
Salaries, allowances and bonuses	**27,900**	19,305
Defined contribution plans	**290**	223
Share-based compensation expense – share options granted	**251**	–
	28,441	19,528

39. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before income tax to cash generated from operations:

	2011	2010
	HK$'000	*HK$'000*
Profit before income tax	**292,984**	220,717
Adjustments for:		
Depreciation on property, plant and equipment	**63,402**	61,997
Provision for impairment of property, plant and equipment	**4,936**	–
Depreciation on investment properties	**30**	36
Amortisation of leasehold land and land use rights	**4,070**	3,131
Amortisation of license rights	**15,099**	12,194
Gain on disposal of a subsidiary	**(10,827)**	(23,112)
Net gain on disposals of property, plant and equipment	**(266)**	(2,001)
Net gain on disposals of non-current assets held for sale	**–**	(3,343)
Net loss on forward foreign exchange contracts	**–**	27
Net gain on early termination of a license agreement	**–**	(8,378)
Net write-down of inventories to net realisable value	**9,769**	6,419
Share-based compensation expense – share options granted	**671**	635
Provision for/(reversal of) impairment of receivables, net	**203**	(3,314)
Finance income	**(10,291)**	(5,049)
Finance costs	**7,217**	7,764
Effect of foreign exchange rate changes	**(20,024)**	6,872
	356,973	274,595
Changes in working capital		
Increase in inventories	**(111,220)**	(32,986)
Increase in accounts receivable and bills receivable	**(46,241)**	(22,855)
(Increase)/decrease in prepayments and other receivables	**(6,773)**	21,400
Increase in accounts payable and bills payable	**67,930**	19,823
Increase in accruals and other payables	**89,926**	8,985
Decrease in retirement benefits and other post retirement obligations	**(1,869)**	(2,030)
Cash generated from operations	**348,726**	266,932

(b) Gain on disposal of a subsidiary

During the year ended 31 December 2011, the Group disposed of its interest in a subsidiary, Upgain (Laos) Manufacturing Company Limited incorporated in Laos, at US$1,830,000 (equivalent to HK$14,234,000) and realised a gain on disposal of HK$10,827,000. The subsidiary had ceased production in 2004.

39. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Gain on disposal of a subsidiary (Continued)

In 2010, the Group disposed of its interest in a subsidiary, Zhejiang Huazhang Garment Co., Ltd. incorporated in the PRC, at a consideration of RMB34,365,000 (equivalent to HK$40,085,000) and realised a gain on disposal of HK$23,112,000.

Aggregate net assets disposed on date of disposal:

	2011 **HK$'000**	2010 HK$'000
Cash and cash equivalents	**–**	16,973
Property, plant and equipment	**3,444**	–
Leasehold land and land use rights	**–**	–
Net assets disposed	**3,444**	16,973
Gain on disposal	**10,827**	23,112
Translation reserve transferred to the consolidated income statement	**(37)**	–
Consideration received	**14,234**	40,085
Satisfied by:		
Cash and cash equivalents received as consideration	**14,234**	40,085
Cash and cash equivalents disposed	**–**	(16,973)
Net cash inflow on disposal of a subsidiary	**14,234**	23,112

(c) In the consolidated statement of cash flows, proceeds from disposals of property, plant and equipment and non-current assets held for sale comprise:

	2011 **HK$'000**	2010 HK$'000
Net book amount	**701**	4,752
Net gain on disposals	**266**	5,344
Proceeds from disposals	**967**	10,096

40. ULTIMATE HOLDING COMPANY

The Board regards Silver Tree Holdings Inc., a company incorporated in the British Virgin Islands, as the ultimate holding company.