Stella International Holdings Limited

Stock Code: 1836

Annual Report 2016

MISSION STATEMENT
OUR CORE VALUES

Stella is dedicated to providing its customers with a wide range of top quality and high-end footwear. We are customer-driven and passionate about our business, and conscious of providing the best quality in everything we present to our customers. In addition to promoting these core values, the management philosophy of the Company is to be fair, caring and respectful.

OUR MISSION:
TO MAKE THE BEST SHOES

Always seeking to fulfill our promise of delivering outstanding and unique footwear, we are guided at all times by our unwavering motto of "making the best shoes" and missions of:

- We wish, within our selected business segments, to be the **preferred partner** for footwear products and associated services, contributing to an **efficient and superior supply chain**.
- By being close to our customers we fulfill their needs with **innovative, cost effective and high quality solutions**. Through **empathy, responsiveness** and **dependability** we seek to earn their loyalty.
- Our culture attracts and nourishes individuals who are energetic, committed and have a **passion with a learning attitude** for our business.
- By striving **to be the best** in our business we achieve growth and increased value for our customers, employees and shareholders.

CONTENTS

MANUFACTURING

Contractual Arrangement

Processing Factories

Wholly Foreign-Owned Enterprise

Stella

RETAILING

Greater China

France

Philippines

Bahrain

Kuwait

Lebanon

United Arab Emirates

Stella is a leading developer and manufacturer of quality footwear products and was listed on The Stock Exchange of Hong Kong Limited on 6 July 2007. We offer our brand clients a one-stop shop that combines elements of design, development and manufacturing.

Since 1982, Stella has developed strong working relationships with, and has produced quality shoes for, many global brand names. Our constantly expanding product range includes quality high-fashion, premium, casual, and increasingly, sports-fashion footwear. Our client base includes six of the world's top ten casual footwear companies, namely, Clarks, Deckers, ECCO, Rockport, Timberland and Wolverine, as well as leading companies in fashion footwear, such as Cole Haan, Guess, Jones Group, Kenneth Cole, Tory Burch and Michael Kors.

We also design, develop and manufacture footwear for several high-fashion brands, such as 3.1 Phillip Lim, Alexander Wang, Bally, Givenchy, Kenzo, Marc Jacobs, Paul Smith and Prada.

By leveraging our manufacturing expertise and the wide acceptance of Stella's products and industry recognition, we launched our retail operations in 2006 under our own brands *Stella Luna, What For* and *JKJY by Stella*. These brands have successfully expanded into China and Europe's footwear retail markets.

We have also started to penetrate into the handbag market and position ourselves as a total solution provider for leather products to premium customers. By leveraging our strong customer base, as well as our leather product experience, we are further investing in our design and development capability to provide a wide range of leather accessories to our customers.

MILESTONES

1982

Founded in Taiwan by Jimmy Chen, Jack Chiang and Eric Chao to produce fashion footwear for US retail customers.

1991

Commenced China operations with the establishment of the Stella Footwear Factory in Changan, Dongguan.

1995

Established Seville Footwear Factory in Changan, Dongguan for the development and manufacture of casual footwear for leading companies like Clarks, Rockport, Timberland and Wolverine.

1998

Entered into an exclusive supply arrangement with Golden Star Company Limited for the manufacture of casual footwear in Vietnam.

2009

Opened *Stella Luna* Store at Dubai Mall in July.

2010

Diversified into inland China.

2011

Introduced new men's affordable luxury footwear brand – *JKJY by Stella*.

2012

Expanded our casual footwear production lines in Indonesia.

Opened *Stella Luna* Store in Paris.

PRIVATE LABEL → CASUAL/FASHION → LUXURY

COMPONENTS MANUFACTURING

ASSEMBLY

ENGINEERING & DEVELOPMENT

BRANDING/ RETAIL

1999

Established Selena Footwear Factory in Dongguan to expand with our increased production and into premium women's fashion shoes.

2004

Developed and manufactured footwear for high-end brands.

2006

Launched *Stella Luna* flagship store in Shanghai.

2007

6 July 2007 Listed on The Stock Exchange of Hong Kong Limited.

July 2007 Expanded our retail market capabilities with the launch of our contemporary lifestyle footwear brand *What For* in China.

2013

Opened *What For* Store in Paris.

2014

Established footholds in Philippines and Myanmar, adding two more countries to our South East Asia portfolio.

2015

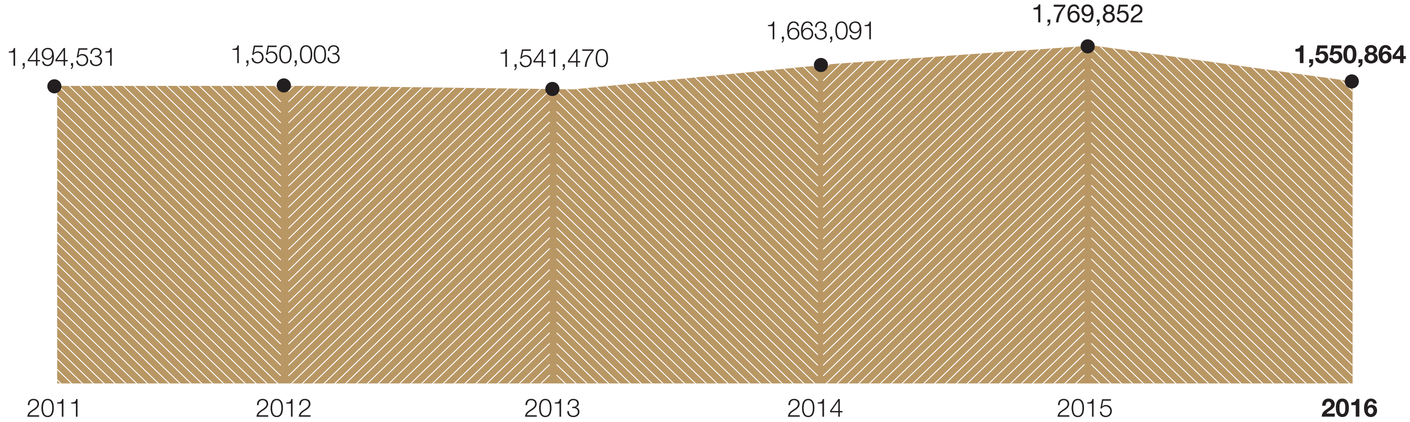
Completion of inland migration strategy - securing more stable labour supply and costs at Italian quality, underwriting Stella's future growth.

2016

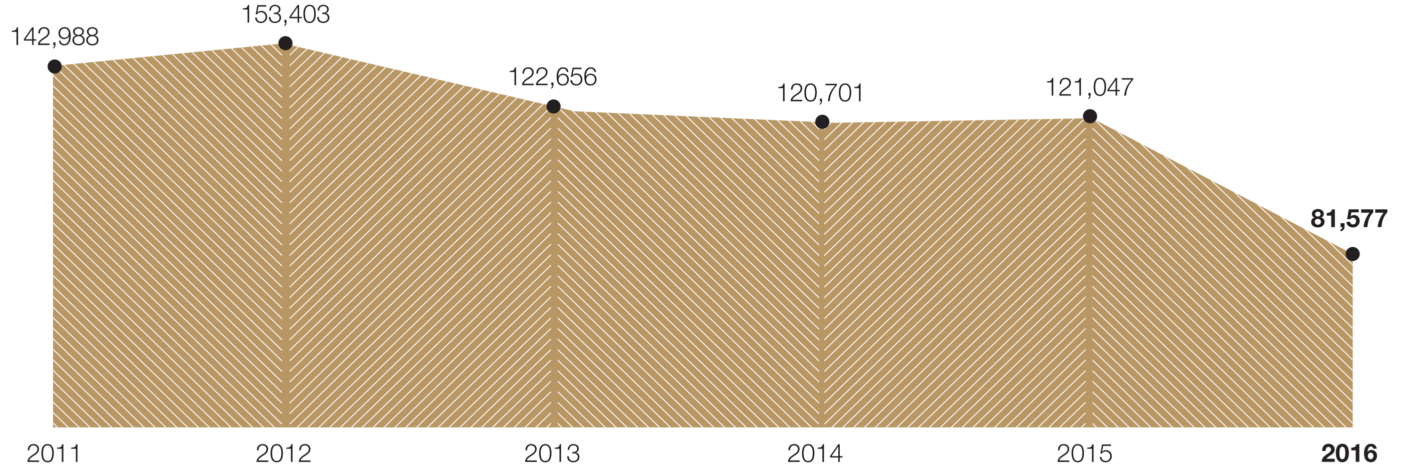
Retail brand *Stella Luna* entered new markets, including Hong Kong and the United States for the first time through renowned department stores such as Lane Crawford and Barneys New York.

REVENUE AND PROFIT TREND

Revenue
US$'000

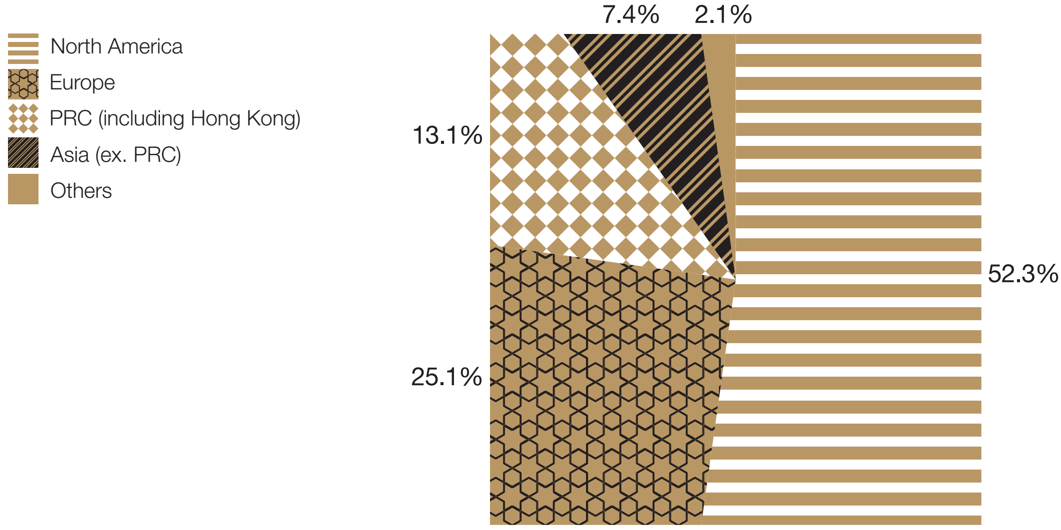


Net profit attributable to shareholders
US$'000

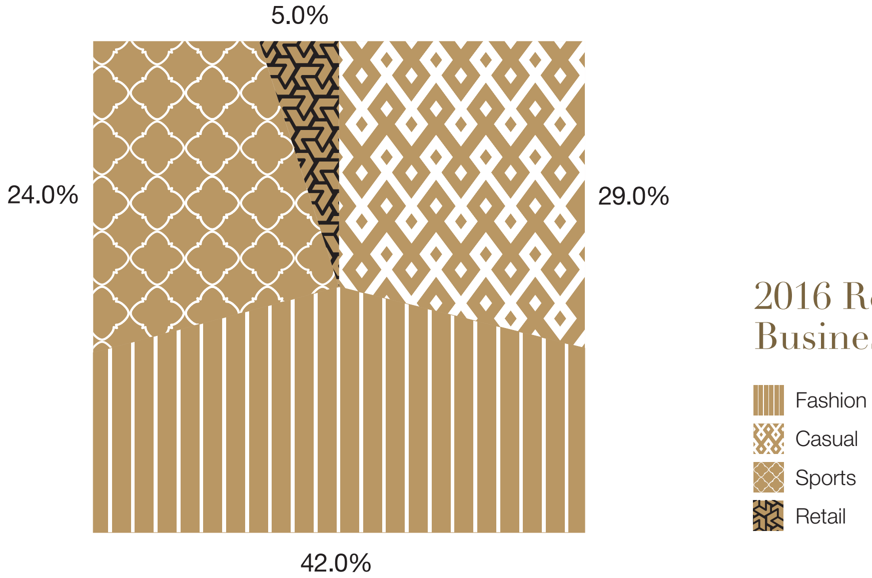


GEOGRAPHICALLY, NORTH AMERICA AND EUROPE CONTINUED TO BE OUR TWO LARGEST MARKETS

2016 Revenue by Geographical Segments



2016 Revenue by Business Segments



Our mission:
"Making the best shoes"

Making the best shoes

Dear Shareholders,
2016 may be remembered more for its politics than for anything else. Disruptive events, such as the United Kingdom's decision to leave the European Union, led many companies, including footwear brands, to become increasingly conservative with their business decisions.

In addition, rapidly changing consumer tastes – which increasingly favour products that incorporate fashion with lifestyle, such as 'athleisure' – is continuing to transform the footwear retail space.

Both of these factors affected our financial performance during the year under review, as well as efficiency and production allocation in some parts of our operations. However, thanks to the hard work of our management team, our ability to cope with these changes stabilised throughout the year.

Looking forward, we remain committed to further improving our processes to take advantage of these trends. And most importantly, we will not back down from incorporating the high level of quality and research and development that we are famous for. This will continue to set Stella apart from the rest of the industry.

2016 may also prove to have been a watershed year for the future of global trade – particularly with the apparent rise of protectionism in some markets, as epitomised by the withdrawal of the United States from the Trans-Pacific Partnership and renewed discussion about withdrawing from or renegotiation about North American Free Trade Agreement. Similar protectionist rhetoric is also starting to appear in Europe following the Brexit decision in the United Kingdom, recent terrorism attacks and the ongoing refugee crisis.

BEST SHOES

Whether this proves just to be a blip in the steady march towards global free trade, or represents a true reversal of this, remains to be seen.

Despite these potential dark clouds on the horizon, any future change to global trade policies in developed markets is also unlikely to change the fundamental business case for footwear manufacturing in Asia. As a result, the future development strategy for our manufacturing business is unlikely to change. This includes further expanding our athleisure footwear manufacturing capacity in places such as Vietnam, while also making strategic changes to our production allocation to align with changing market demand.

Our retail business will also continue to play an important role in showcasing our footwear products on the global stage.

Heading into 2017, demand from our customers should stabilise despite the above risks, with the Federal Reserve's decision to start raising interest rates in December being just the latest sign that the U.S. economy – our largest market – is back on track. We will continue to invest in our ability to deliver value, quality and craftsmanship to achieve our mission of "making the best shoes", in order to position our business strongly for the future.

I would like to take this opportunity to express my thanks to our customers, business partners and shareholders for the hard work and unwavering support throughout the year. On behalf of the Board, I would also like to thank my colleagues for their dedication and service throughout the year.

Chiang Jeh-Chung, Jack
Chairman
Hong Kong, 16 March 2017

Leveraging our reputation for high-quality design and R&D to cater the converging market trends

Proactive consolidation and adjustment to manufacturing capacity to meet changing market conditions

The board ("Board") of directors ("Directors") of Stella International Holdings Limited ("Stella" or the "Company") is pleased to present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016.

BUSINESS MODEL AND STRATEGY

Stella is a leading developer, manufacturer and retailer of quality footwear and leather goods products. Our manufacturing business was founded in 1982 with a simple mission of "making the best shoes". We provide a one-stop shop for the design, development and manufacturing of premium and luxury footwear, athleisure footwear and leather goods.

Our business is positioned at the high-end of the value chain, offering craftsmanship, innovation, short lead times, and small batch production. Our commitment to quality has enabled us to attract a growing client base: from premium to high-end, and from fashion to sports and casual brands.

We launched our retail business in 2006 in order to diversify our business and tap growing demand for affordable luxury footwear in China and across the region. All our retail products are designed and manufactured in-house and have quickly attracted a strong following among China's upwardly mobile consumers.

Our retail business currently consists of three self-developed brands – *Stella Luna*, *What For* and *JKJY by Stella*. Our network of retail stores is primarily focused in Mainland China, with additional stores in France, the Philippines, Taiwan, Kuwait, Lebanon and the United Arab Emirates.

FINANCIAL HIGHLIGHTS

Better Production Allocation Supports Second Half Performance

We experienced a marked slowdown in demand for our casual footwear products during the year under review as a result of the weak retail environment in North America and Europe, as well as changing consumer trends. This resulted in the lower utilisation of our non-sports footwear factories, and in turn, a drop in efficiency and margins, particularly in the first half of the year.

However, we continued to record solid and sustainable growth for our athleisure footwear products, which partially offset the impact of the slowdown in the casual segment. We have also been proactive in reassigning some of the spare capacity in our non-sports footwear factories, which helped return us to a firmer financial footing in the second half of the year.

Our consolidated revenue for the year ended 31 December 2016 fell 12.4% to US$1,550.9 million (2015: US$1,769.9 million). Shipment volumes fell 9.1% to 52.9 million pairs (2015: 58.2 million pairs). The average selling price ("ASP") of our footwear products fell 4.1% to US$28.1 per pair (2015: US$29.3 per pair) due to changes to our product mix.

Fashion footwear is our largest segment, contributing 42.0% of total revenue (2015: 46.0%) during the year ended 31 December 2016. The contributions from casual footwear and athleisure were 29.0% and 24.0% respectively (2015: 32.5% and 16.9%).

Geographically, North America and Europe remain our two largest markets, accounting for 52.3% and 25.1% of our total revenue for the year under review. This was followed by the PRC (including Hong Kong), which accounted for 13.1%, Asia (other than the PRC), which accounted for 7.4% and other geographic regions, which accounted for 2.1%.

Retail Business Benefiting from Enhanced Operational Strategies

The retail optimisation strategy being implemented by our retail management team contributed to improved sales during the year under review. This strategy involves the ongoing closure of underperforming stores and counters; the launch of multi-brand stores; the opening of new standalone stores in high-potential shopping malls in China; the refurbishment of older stores; as well as the use of online platforms for effective marketing strategies and to clear off-season merchandise.

Our retail business contributed around 5.0% to the Group's overall revenue. The segment experienced a slight decline in revenue by 3.1% to US$77.8 million (2015: US$80.3 million) for the year under review despite a turnaround in the fourth quarter. Similarly, despite the notable recovery of same-store sales towards the end of the year, same-store sales (in China only) for the year fell slightly by 6.2% to US$50.2 million (2015: US$70.9 million).

Our retail business recorded a gross profit of US$53.0 million (2015: US$53.4 million), a net loss of US$1.6 million was recorded for 2016 (2015: net loss of US$3.6 million).

Profitability Under Challenges

The decline in revenue and shipment volume during the year ended 31 December 2016 had an impact on our overall financial performance. Our gross profit fell 21.8% to US$290.5 million (2015: US$371.6 million) as a result of the overall decline in revenue and shipment volumes. While we had more than abundant labour particularly in the first half of 2016, our gross profit margin for the year was 18.7% (2015: 21.0%).

Full year net profit attributable to equity holders of the Company fell 32.6% to US$81.6 million (2015: US$121.0 million).

Our cash generated from operations remained healthy at US$102.2 million from US$170.9 million in the same period last year.

BUSINESS REVIEW

Athleisure Trend a Natural Fit for Stella's Skill Base and Reputation

During the year under review, the popularity of 'athleisure' footwear products – a fashionable take on the traditional sports shoe – continued to grow at a pronounced pace. The shift in demand is being driven by a number of factors, including changing fashion and lifestyles that favour comfortable and casual wear. This trend presented us with an opportunity to grow in the new category.

We were proactive in leveraging on our reputation for high-quality design and R&D, as well as on our skill base for developing compelling footwear products, in order to win new customers in the athleisure space and expand our relationship with existing customers.

We also continued to gain the trust of our customers and added new athleisure footwear products in our product offerings during the year under review. This bodes well for us to ride on current trends and further develop as a partner of choice in the athleisure segment in the years ahead.

However, the growing popularity of athleisure also cannibalised demand for casual footwear products – another key product segment – as the result of the convergence between sports, casual and fashion in the retail market. This was one of the main contributors to the overall decline in shipment volumes during the year under review.

Proactive Consolidation and Adjustment to Manufacturing Capacity to Meet Changing Market Conditions

Over the past few years, we have been steadily diversifying and optimising our manufacturing base to continue delivering on our longstanding reputation for 'Italian shoes made in China by Stella'. Our manufacturing footprint now includes China's Guangdong, Hunan, Guangxi and Hebei provinces, as well as in a number of South-East Asian countries, including Vietnam, Indonesia and Bangladesh.

The Group has also established footholds in the Philippines and Myanmar, which may lead to the establishment of new manufacturing facilities in these countries sometime in the future.

This diverse manufacturing base has enabled us to overcome persistent labour supply and labour cost problems in China's coastal regions, while taking advantage of the shift within China's workforce away from transient migrant labour towards a more resident and career-focused workforce.

During the year under review, the fall in demand for casual footwear propelled us to make further adjustments to our manufacturing base. This included substituting some of our previous casual footwear capacity to meet rising orders for athleisure footwear, particularly in the second half of the year. Our ability to achieve this in a short period of time helps us reduce inefficiencies and under-utilisation at our factories, restoring some of our margins. We also reduced headcounts at a greater pace than expected to better control capacity and costs.

Commitment to 'Italian Quality' Supports Further Expansion of Market Share at the Premium-end

In 2016, our share of the global premium footwear market had grown to around 10.6%, compared to the combined 75% global market share of Italian, Spanish and Portuguese manufacturers – Europe's main high-end producers. This growth was mainly attributable to the further expansion of our brand portfolio as we added new customers during the year under review, as well as the continued decline of shoe production volumes in some locations such as Italy.

The following table shows a summary of production and export price data for major footwear producing countries for the year ended 31 December 2015.

	Production (million pairs)	Export price – leather shoes only (USD/pair)
Italy	191	62
France	42	60
Spain	105	38
Portugal	79	31
Germany	33	35
Great Britain	6	36
Brazil (leather export)	17	26

Source: 2016 Yearbook, Portuguese Footwear, components and leather goods manufacturers' association

Our strong positioning in the premium footwear market is the result of the unparalleled reputation we have built in delivering 'Italian quality', flexibility and research and development capabilities. These capabilities are underpinned by our state-of-the-art design, research and development centers in Dongguan, China and Venice, Italy, allowing us to attract a higher ASP than the industry average.

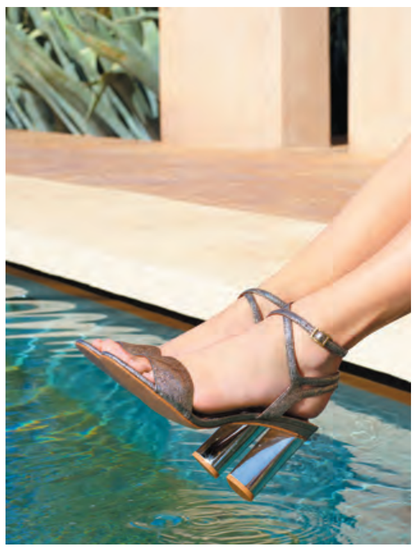
We are also continuing to explore the manufacture of quality leather goods and accessories, including handbags, in order to meet growing demand from brands looking to outsource the production of these products.

Signs of Turnaround for Retail Business

The strategies and initiatives being implemented by our new retail management team started to see positive impact towards the end of the year, during which we saw some turnaround in revenue and same-store sales.

One of the main strategies has been the ongoing optimisation of our store network. This included further reducing our store network in China as we closed more underperforming stores and counters, while at the same time opening new standalone stores in selective locations. We also continued to expand the presence of our *Stella Luna* and *What For* brands in Europe to support the value of our retail brands in China.

In the year ended 31 December 2016, the Group opened a net 8 *Stella Luna* stores worldwide and closed a net 4 *What For* stores and 2 *JKJY by Stella* stores. In April 2016, we closed our last Pierre Balmain branded store in China, although *Pierre Balmain*-branded footwear remains available at our other retail stores in China.



The following table shows the geographic distribution of our stores, by brand, as of 31 December 2016.

	Stella Luna	*What For*	*JKJY by Stella*
Greater China			
Eastern China	47	6	0
Southern China	34	11	0
Northern China	34	16	0
North-East China	20	7	0
South-West China	32	9	1
Central China	18	8	0
Taiwan	1	0	1
Subtotal	186	57	2
France	4	48	3
Philippines	1	1	1
Bahrain	1	1	0
Kuwait	2	2	0
Lebanon	9	8	0
United Arab Emirates	4	1	0
Total	207	118	6

Expanding Global Reach of Retail Business

During the year under review, we expanded our work with leading retailers around the world, such as *Lane Crawford* and *Barneys New York*, to bring our retail brands to new markets, including Hong Kong and the United States, for the first time, while also making them available on their ecommerce channels.

These collaborations complemented our other strategy of expanding the presence of *Stella Luna*, *What For* and *JKJY by Stella* in Europe in order to increase the overall value of these brands in the Chinese market.

As of 31 December 2016, *Stella Luna* footwear was priced between RMB1,780 and RMB9,180 per pair in China, while *What For* and *JKJY by Stella* products retailed for RMB980 – RMB2,980 and RMB2,380 – RMB3,980 respectively.

Grant of Option to Sell 60% of Stella's China Retail Business

In October 2016, the Group granted to Max Group Holdings Limited ("Max Group") an option to acquire a 60% stake in the Group's China retail business.

Despite the grant of option and (if exercised) sale of our majority stake in our China retail business, we will continue to maintain control over our retail brands, as well as our retail operations in Europe. We are excited to have found the right partner for securing the ongoing turnaround of our retail business.

OUTLOOK

Orders Expected to Stabilise in First Half of 2017

We see demand for our footwear products stabilising in the first half of 2017, due to continued economic recovery in the United States. However, numerous risks remain – both political and economic. This includes the ongoing Brexit negotiations, potentially contentious elections in France, the rise of trade protectionism in the United States, slowing economic growth in China and the ongoing Syrian refugee crisis and the declining security situation in Europe.

We also continue to expect more demand for athleisure products in 2017, which will continue to partially cushion for the weakness in casual footwear products.

Continuation of Manufacturing Strategy Despite Suspension of TPP Ratification

While the U.S. Government decision not to ratify the Trans-Pacific Partnership (TPP) is disappointing, we do not expect the event to drastically affect the strategy of our manufacturing business going forward.

We will continue to expand our athleisure footwear manufacturing capacity, particularly in locations such as Vietnam, in order to increase our competitiveness in this sector. We will also convert more of our manufacturing capacity in other areas into additional capacity for athleisure footwear products.

We will also continue to invest in our research and development capabilities in order to improve and extend our range of innovative footwear products to deepen our customer relationships and remain the partner of choice for leading footwear brands around the world.

We will also remain committed to strict cost controls and ongoing efficiency improvement measures, while also better managing headcounts and work hours. We will continue to meet narrow shipment windows and deliver short lead times to meet the expectations of our customers and deliver value.

Focused Investment in People

The training and development of new talent remains a core focus at both our manufacturing and retail businesses. We will continue to invest heavily in the training and mentoring of our workforce to further boost their skills and capabilities and improve productivity.

We will also ensure that our industrial relations practices conform to the Group's strict corporate social responsibility standards to uphold employee morale and to reduce labour turnover.

Securing the Long-term Competitiveness of Retail Business

Our retail management team will continue to implement their strategies to turnaround the retail business in China. This will include the closure of more non-performing stores and counters, as well as the selective opening of standalone stores and shop-in-shops in high-potential locations.

We will also continue to expand our retail presence in Europe and other global markets to further grow the value of our retail brands and to bring back this brand equity to China.

Continued Commitment to Shareholders

We expect our capital requirements to remain modest in the coming year, despite ongoing investment in our research and development capabilities and in some manufacturing facilities in South-East Asia. We remain committed to returning profit to shareholders and maintaining our current dividend policy.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group remained in a stable financial position throughout 2016, with cash and cash equivalents of about US$106.3 million (2015: US$186.2 million) as at 31 December 2016, representing an decrease of 42.9% as compared to the position as at 31 December 2015.

The Group's net cash inflows from operating activities fell to US$102.2 million (2015: US$170.9 million) for the year, representing a decrease of 40.2%.

Net cash outflows used in investing and financing activities fell to US$62.1 million and US$102.5 million, respectively.

As at 31 December 2016, the Group had current assets of US$712.8 million (2015: US$808.2 million) and current liabilities of about US$191.4 million (2015: US$255.7 million). The current ratio (which is calculated on the basis of current assets over current liabilities) was 3.7 as at 31 December 2016, an indication of the Group's high liquidity and healthy financial position.

BANK BORROWINGS

The Group had bank borrowings of US$3.3 million as of 31 December 2016 (2015: 18.3 million).

FOREIGN CURRENCY EXPOSURE

During the year ended 31 December 2016, the Group's sales were mostly denominated in U.S. dollars, while the purchase of raw materials and operating expenses were mostly denominated in U.S. dollars or RMB. Currency exposures were mostly denominated in RMB and Hong Kong dollars against the functional currency of the relevant Group company.

The Group has entered into various foreign currency forward contracts to minimise the Group's exchange rate exposure.

CAPITAL EXPENDITURE

Net cash outflows from investing activities was US$62.1 million (2015: US$87.8 million) during the year under review, representing an decrease of 29.3%. Capital expenditure amounted to approximately US$77.5 million (2015: US$85.3 million), of which approximately US$70.0 million was used in production capacity expansion and approximately US$7.5 million was used for the optimisation of our retail store network.

PLEDGE OF ASSETS

As of 31 December 2016, the Group had pledged US$5.5 million of its assets (2015: US$5.5 million).

CONTINGENT LIABILITIES

As of 31 December 2016, the Group had no material contingent liabilities (2015: Nil).

EMPLOYEES

As at 31 December 2016, the Group had approximately 71,000 employees (2015: approximately 83,000). We cultivate a caring, sharing and learning culture among our employees and believe that human resources are significant assets to the Group's development and expansion. We actively seek to attain, train and retain individuals who are proactive, positive, committed to and passionate about our business.

The Group has continued to build a strong management team internally through effective learning and promotion programs, including our "Leadership Program" to identify potential high calibre employees, to assess the quality of senior management and ultimately to determine appropriate remuneration and other human resources development measures. With a view to recognising and rewarding the contribution of the employees, giving incentives to the employees in order to retain them for the continual operation and development of the Group and attracting suitable personnel for further development of the Group, the Company has adopted a long term incentive scheme and a share award plan. Please refer to the paragraphs headed "Long Term Incentive Scheme" and "Share Award Plan" in the Directors' Report in this annual report for details.

As of 31 December 2016, our recruitment efforts remained satisfactory, despite the labour shortages in our primary manufacturing locations in China.

Growing our leadership in product stewardship, regulatory compliance and environmental preservation

Stella International Holdings Limited and its subsidiaries (the "Group", or "we/our") have always been striving to fulfill the mission of delivering outstanding and unique footwear. To enable all stakeholders to an overview of our policy, measures and performance in the environmental, social and governance ("ESG") aspects, we prepared this environmental, social and governance report (the "Report") in accordance with the ESG Reporting Guide ("ESG Guide") as set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange.

The Report covers most of our casual and sports manufacturing business which is the major income source of the Group for the period from 1 January 2016 to 31 December 2016 (the "Reporting Period", the "Financial Year", "2016 Financial Year"). The management and staff of our key subsidiaries of different functions were involved in the preparation of the Report, assisted the Group to review its operations, identified relevant ESG issues, and assessed their materiality to our business as well as to the stakeholders. The table below highlights the ESG issues which were determined to be material to the Group covered in the Report:

ESG Guide Reference		Material ESG Issues
A.	Environment	
A1.	Emissions	• Waste management
A2.	Use of Resources	• Use of energy, water and packaging materials
A3.	Environment and Natural Resources	• Environmental impact management
B.	Society	
B1.	Employment	• Responsible employer
B2.	Health and Safety	• Occupational health and safety
B3.	Development and Training	• Employee development and training
B4.	Labour Standards	• Prevention of child and forced labour
B5.	Supply Chain Management	• Supply chain environment management
B6.	Product Liability	• Product quality control and customer service quality
B7.	Anti-corruption	• Anti-bribery and anti-corruption
B8.	Community Investment	• Social contribution

A. ENVIRONMENTAL

Stella's growth and prosperity is dependent on its operation policy that are both environmentally sustainable and beneficial to our multiple stakeholders (including our employees, customers, business partners and the communities within which we work) and its ability to overcome complex challenges.

We recognise that we have the responsibility to ensure the protection of the planet, as well as the safety, health and well-being of our many stakeholders. This is Stella's "Corporate Social Responsibility ("CSR") Vision" and it is at the forefront of all our business practices, operations and development. It also underpins our continuous efforts to conduct business in an ethical and responsible manner, striving to extend our leadership among numerous industry players in respect of various areas other than financially.

Apart from placing strong emphasis on quality and research and development, we also require all departments to strictly observe and ensure their compliance with laws and regulations. Our Group has complied with the requirements as set out in local environmental protection laws and regulations (including but not limited to the Law of the People's Republic of China ("PRC") on Environmental Protection (《中華人民共和國環境保護法》), the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the PRC on Prevention and Control of Air Pollution (《中華人民共和國大氣污染防治法》), the Law of the PRC on Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), Guangdong Regulations on Prevention and Control of Environmental Pollution by Solid Wastes (《廣東省固體廢物污染環境防治條例》) and the relevant environmental protection laws and regulations in Indonesia (Hinder Ordinance). There were no non-compliance cases in relation to environmental protection laws and regulations during the reporting period.

A1 Emissions

Waste management

The waste from the manufacturing segment of Stella are generally classified into hazardous waste and non-hazardous waste. The hazardous waste refers to the waste listed in the National Directory of Hazardous Waste 《國家危險廢棄物名錄》, identified according to the standards and methods for hazardous waste stipulated by the PRC government authorities or those that are designated to be of hazardous nature by clients. Non-hazardous waste refers to solid waste other than hazardous waste.

The waste produced from our manufacturing segment during the reporting period was as follows:

Type of waste	Total (Tonnes)	Intensity (in kg, per pair of shoes)
Hazardous waste	224	0.0078
Non-hazardous waste	3,375	0.1178

Note: The above statistics covered both hazardous and non-hazardous waste produced by 9 (including Mainland China and Indonesia) factories during the reporting period.

Collection points for wastage

Hazardous waste collection point

In order to maximise the control on waste, suitably treat waste and minimise waste pollution to the Company and its surroundings, we have implemented the following measures:

- Management of the source of waste produced. All non-hazardous waste and hazardous waste produced during production activities will be collected, sorted and disposed of to the designated temporary storage area by site operators;

- The waste produced by the activities in office, laboratory and living quarters will be arranged for centralised storage to be treated by the respective department, and will be cleared by cleaning staff on a daily basis. In particular, a special collection storage site is established for collecting used lamps and batteries, which will be collected by a team of special management personnel;

- Leftovers of food and used oil in canteens are treated appropriately;

- The waste management department is responsible for directing the transfer of waste from temporary stacking site to the waste warehouse for further treatment;

- Hazardous waste allocated to the warehouse are handled by certified companies. Non-hazardous waste will be recycled or reused if possible; those that cannot be recycled will be disposed of (either landfilled or incinerated) appropriately, and it will be handled by solid waste disposal service provider permitted by the government; and

- The responsible department of the Company organises periodical safety training to strengthen the working skills and safety protection consciousness of the workforce and operators.

Greenhouse Gas Emission

Our carbon emissions are mainly derived from energy consumption. During the reporting period, carbon dioxide equivalence (CO2e) relevant to the energy generated by the operations covered in this report was 64,422.98 tonnes with an intensity of 2.2493 kg CO2e per pair of shoes. We have implemented all kinds of energy-saving measures to mitigate our carbon emissions. Please refer to the following section “Use of energy” for details.

Note: The carbon emission is calculated with reference to the Greenhouse Gas Protocol published by World Business Council for Sustainable Development (WBCSD) and World Resources Institute (WRI), Report Guidelines on Environmental Key Performance Indicators issued by the Hong Kong Stock Exchange, the Baseline Emission Factors for Regional Power Grids in China published by the Department on Climate Change of National Development and Reform Commission and the Baseline Emission Factors for Power Grids by the Ministry of Energy and Mineral Resources of Indonesia.

During the Reporting Period, our Group had no significant exhaust emission or waste water discharge, while all industrial waste water was treated by certified companies.

A2 Use of Resources

Stella advocates “power-savings is glorious, wasting is shameful”, and strives to set up the consciousness of conserving water and electricity. Through enhancing energy management, we take technically feasible and economically reasonable power-saving measures to reduce direct energy loss and improve energy efficiency. At the same time, we regularly detect our energy consumption to measure the usage of energy and achieve the aims of energy conservation, reduction of consumption, material, sanitary production and environmental protection.

Use of energy

Our total energy consumption during the reporting period was as follows:

Energy Category	Consumption	Intensity (per pair of shoes)
Electricity supply	95,251,577 kilowatt hours	3.3256 kilowatt hours
Natural gas	136,150 cubic meters	0.0048 cubic meters
Diesel	447,656 litres	0.0156 litres
Petrol (Unleaded)	264,685 litres	0.0092 litres

Note: The above statistics covered the main energy consumption of 9 (including Mainland China and Indonesia) factories. The above information included the energy the Group consumed during our operations and excluded the energy consumption that was unable to be directly controlled by the Group.

The Group has implemented certain measures of energy conservation and emissions reduction during the reporting period as follows:

- Use energy-efficient illumination lamps; light should be turned off when staff leave the premises to reduce electricity wastage;
- The temperature of air conditioners in each department shall be adjusted and controlled according to working conditions, and the air-conditioned temperature in the office shall not be lower than 26℃;
- Stringent management of production equipment that requires large electricity consumption by the production department;
- Carry out electrician patrol, monitor and guide each department's energy consumption by equipment maintenance department, rectify any wastage if being identified to avoid electricity wastage;
- Conduct monthly statistical count on electricity consumption and prepare relevant records; if the consumption is over the range specified by standard, the reasons for such should be analysed and take timely remedial actions;
- Before purchasing any machinery equipment, respective departments should assess the energy consumption of the equipment, and select the machine types with low energy consumption if conditions permit;
- Conduct monthly statistical count on petrol usage of mechanical vehicles in plants; and
- Record car mileage and maintain and repair vehicles timely to reduce petrol wastage.

During the reporting period, we installed two environmentally-friendly air conditioners in the transparent materials workshop to substitute four cabinet air conditioners, and it is expected that approximately 2,903 kilowatt-hours of electricity can be conserved every year. We also improved the motors for better energy efficiency and it is expected that relevant electricity consumption can be reduced by approximately 30%. In addition, we replaced pneumatic tools with electric power tools, which are expected to reduce the power consumption by approximately 86%.

Water Management

Total water consumption of the Group during the reporting period was 4,155,399 cubic meters with an intensity of 0.1451 cubic meters water per pair of shoes, which was mainly for workforce residential usage. There was no water sourcing issue with our Group as we mainly consume municipal water. The Group has implemented the following plans to mitigate water consumption during the reporting period:

- To the greatest extent, expand the scope of recycled water for greening and for restrooms to increase the recycling rate;
- Conduct monthly review on water consumption and prepare relevant records; if the consumption is over the range specified, the reasons for such should be analysed for timely remedial actions;
- Install filter screen in canteen sewage outlet and conduct periodic cleaning and send to recycling company;
- Arrange clean and waste water segregation in water discharge, sanitary sewage to run into pipelines in a regular manner and for sedimentation treatment, then discharge after meeting standards;
- Enhance employees' education on environmental protection, and encourage employees to use non-phosphate detergent and washing powder; and
- Staff should save water in workshops, dormitories and in the workplace, and take measures of installing water-saving taps, reduce water pressure during holidays, and decrease the usage of water.

During the reporting period, one of our factories has implemented water circulation system across the manufacturing process, which has circulated 85.6% of water and saved about 700 cubic meters of water per day. In addition, we have 6,000 employees participated in water saving training to raise their awareness towards water conservation.

Use of packaging materials

In 2016, the packaging materials used by the Group were mainly shoeboxes, packing papers, carton boxes and shoe stretchers, reaching a total of 12,364 tonnes with an intensity of 0.4317 kg of packing materials used per pair of shoes.

Treatment of waste water for reuse

Reuse of water for planting

A3 Environment and Natural Resources

The Group closely monitors the potential impact on environment brought by its subsidiaries and plants, and strives to minimise the impact on environment caused by our operations. We endeavour to conduct regular assessment and continuously monitor environmental risks, and at the same time enhance our environmental management system, formulate and update our environmental policy.

Apart from the hazardous and non-hazardous waste and energy consumption generated by the aforementioned section, Stella actively mitigates other major environmental impact, including noises generated from operating production facilities. To strengthen control and reduce environmental impact brought by noises, we have taken the following measures:

- Choose low noise equipment, such as low noise fans for machinery ventilation;
- Choose alumimium alloy with good sound insulation performance or double-deck structure for the doors and windows of the workshops;
- Conduct comprehensive treatment, such as noise reduction and shock absorption measures for boiler plants and generators;
- Report regularly the process of environmental protection and contamination control and their relevant outcomes to local environmental authorities;
- Formulate working programs of environmental facility and respective maintenance schedule to ensure these facilities are in good conditions during operation; and
- Provide technicians on-the-job induction and training to enhance their awareness on environmental protection and ensure all environmental protection facilities are running smoothly.

B. SOCIETY

B1 Employment

As a responsible employer, we strictly comply with all local employment laws and regulations. During the reporting period, there were no non-compliance cases in relation to human resources laws and regulations.

Recruitment, Promotion and Remuneration Policies

We attract talents using the fairness and objectiveness principle. Our recruitment is open to the public through various methods like posting recruitment advertisements, online recruitment, campus recruitment, job market recruitment, and head-hunter recommendation and comprehensive evaluation will be conducted.

Stella considers attendance, performance, rewards and punishments as means to promote morale. We also consider staff promotion for recommended staff to achieve the ultimate goal of talent dedication to the Group.

For remuneration, on the basis of evaluating the value of workforce and under the guidance of the Group's operation strategy, the Group has in place a competitive remuneration system with reference to industry and regional standards.

Working Hours

We strictly control working hours in accordance with the requirements of laws and customers, and ensure that all the overtime works are on a voluntary basis. The overtime pay is fully remunerated according to local applicable labour laws. New comers will be provided with pre-employment education, allowing them clear understanding of relevant working hours.

Equal Opportunities, Diversification and Anti-Discrimination

The Group is committed to providing fair, equitable and reasonable job opportunities for its staff. In the respect of engagement, wages, welfare and promotion, our considerations are solely based on our staff's work competence. We treat all employees equally, irrespective of their gender, age, race, blood, skin colour, nationality, political status, creed, marital status, maternity status, sexual orientation, disability or any other factors that are irrelevant to their work competence. If a discriminatory behaviour is discovered, the Group will conduct an investigation and take disciplinary action against discriminatory behaviour. At the same time, we also have in place a whistleblowing policy to ensure that complaints are made in strict confidentiality.

Holidays and Welfare Policies

We strictly comply with relevant national laws and regulations, review and improve employees' welfares, and pay various statutory social insurance according to the law and ensure that our employees can enjoy social statutory holidays and other welfares. Apart from this, employees are also entitled to paid annual leaves, marital leave, and maternity leave and so on. To safeguard the legitimate interests of female staff, no department is allowed to arrange pregnant staff to perform works related to moving things, work in high altitude, cold temperature and cold water during pregnancy. For female staff who is pregnant for over seven months, we do not suggest them to work on night shift or perform overtime work.

Stella provides regular health checkups to all employees throughout the year, as well as arrange employees to undertake first aid training, allowing them to contribute directly to safety in the workplace. We also organised a series of health lectures (on topics such as reproductive health and occupational health) in order to promote disease prevention and better health standards.

Social Activities

We arrange regular leisure activities such as sports competitions, field trips, shoe-making competitions and seasonal celebrations during major holidays such as New Year's Day and the Mid-Autumn Festival to enrich our employees' leisure life outside of work.

Company celebration with employees

B2 Health and Safety

Occupational Health and Safety

Workplace health and safety remains our top priority. Stella consistently meets all applicable standards and regulations, while also striving to develop the autonomy of employees so that they are involved in creating and contributing to a safe and hazard-free work environment and promoting occupational safety.

We have taken a number of steps to further improve workplace safety, including:

- Banning the storage of chemicals in our workshops;
- Maintaining notification boards throughout our workshops to reinforce awareness of workplace safety procedures among our workforce;
- Conducting regular audits of employee canteens to ensure food safety;
- Conducting regular emergency exercise activities, such as fire drills;
- Upgrading of existing machines to ensure workplace safety;
- Improving the training and innovation capability of technical personnel, and instructing our staff the correct way of using and maintaining equipment;
- Grasping the latest information of artificial intelligence in the market and developing new safety equipment;
- Evaluating and using new equipment for special use; and
- Rectifying the staging area for hazardous waste and increasing water spray cooling device.

In order to promote safety at our production facilities, prevent and reduce accidents to safeguard the life and property of workers and continue to improve safety production management, we also hold regular environmental, safety and health ("ESH") meetings, to review prevailing risks in the workplace, as well as an opportunity to evaluate any emerging risks. It is also an important conduit for face-to-face communication among employees, directors, supervisors, committee members and CSR coordinators, and is an essential component of our ESH management system.

Stella Factory

Safe factory interior environment

A new "CSR Internal Training Plan" was put in place to cover training, exposure control and the use of personal protective equipment, chemical management, safety awareness and communication, and fire safety, etc.

We also instituted annual centralised audits at all of our plants worldwide, including China, Vietnam, Bangladesh, Indonesia and the Philippines, to ensure that these initiatives and others are being implemented across all the factories of the Group. In 2016, we rectified all discovered security risks, including installing facilities (such as widened foot stand to avoid collapse in the process of carrying, baffles to prevent hands from being engulfed and protective covers and sensors to avoid clamping) on the machines. We will continuously call for all staff to carry out security examination and proactively facilitate safety production management to achieve modern and scientific safety in production. For example, we will develop equipment that is more convenient for operation and more suitable for ergonomics and machines that can integrate production processes to improve efficiency, thus reflecting the "human-oriented" scientific outlook on development.

During the reporting period, there were no non-compliance cases in relation to workplace health and safety laws and regulations.

B3 Development and Training

We firmly believe that it is necessary to improve employees' professional standards continuously in the corporate responsibility department, with an aim to meeting our long-term development plan and cultivating our talents and sharpening our competitive edge. Accordingly, we have established a management system relating to education and training.

We organise regular voluntary training opportunities for our employees, providing them with an opportunity to upgrade their skills and grow with the Company. At the same time, to deal with emergency situations, implement fire evacuation timely and effectively and ensure orderly evacuation to minimize casualties, property loss and social impact caused by accidents, we conduct regular fire drills every year to enhance our staff's disaster prevention awareness, including managing their own escape, self-help and mutual rescue skills.

Staff training

Staff training

In order to enable our employees to gain in-depth understanding of corporate responsibility and ESH knowledge and apply their correct knowledge learnt in the workplace, Stella provides basic pre-job training of corporate social responsibility for new employees or interns, and management trainees before they are on board. We also carry out relevant ESH trainings according to the job requirements of our employees. During the reporting period, the Group arranged a total of 429 fire drills, on-the-job trainings and EHS courses, with 64,554 participants throughout the year.

B4 Labour standards

We prepare our internal Social Responsibility Management Manual based on the global SA8000 certification. The SA8000 is based on the principles of international human rights norms as described in International Labour Organisation Conventions, the United Nations Convention on the Rights of the Child and the Universal Declaration of Human Rights, including health and safety, freedom of association, working hours and wage standards, the prohibition of child labour and the protection of minors, the prohibition of forced labour, the prohibition of discrimination, the prohibition of unfair punishment, and so on.

During recruitment, human resources department will verify the personal information of candidates according to the requirements of internal human resources policies and procedures and check their identity cards to verify their age. To ensure the employees' interests are not being infringed, all our employed staff must be recruited voluntarily, in other words, we prohibit any forced labour and never induce any employee to work by deception. Furthermore, our staff undergoing unfair treatment can report through our whistleblowing policy.

During the reporting period, there were no non-compliance cases in relation to labour laws and regulations.

B5 Supply Chain Management

Our Group follows the common principles and objectives with suppliers. We are committed to building close relationship with our suppliers and maintaining constant communication with them through various channels to ensure that the services and products provided by them meet our requirement, thus enabling us to maintain our quality. We only select suppliers that pursue constant perfection and possess environmental protection consciousness and business ethics as our partners. We choose suppliers by taking into account factors such as their scale of production, capability of on-time delivery, price advantage, quality assurance and after-sale service in a principle of justice and in accordance with our internal policies, and request them to undertake responsibilities for the following environmental and social issues:

- Employment is based on a voluntary and fair basis
- Reasonable remuneration and working hours are offered to the staff
- Child labour is prohibited
- Discrimination, harassment and abuse are not tolerated

- The workplace is healthy and safe, with protective equipment given as required
- Freedom of association is respected
- Environmental impact is minimised

Suppliers are evaluated regularly and we will continue to cautiously select partners to make sure an effective and excellent supply chain management.

B6 Product Liability

We are always seeking to fulfill our dedication to deliver outstanding and unique footwear. Stella is guided by its spirit of "making the best shoes". Our products are of high quality and exquisite technology that have gained the attention of internationally renowned luxury and casual brands.

Product Quality Control

We select our products offerings carefully and strictly control the safety and quality of our products. We integrate the whole production process monitoring with production standardisation and successfully implement good management at our production facilities. For raw materials management, we only cooperate with suppliers holding valid business licenses and various related qualification documents. Besides, we will take into consideration factors such as the capability and credibility of suppliers, performance and whether the commitment for quality is consistent with the national and industry production standards so as to endeavour and assure the quality of raw materials, whereby ensuring our product quality and safety.

Customer Service

We are always customer-driven and passionate about our business, and are dedicated to provide the best quality products and services to our customers. By being close to our customers, we strive to fulfill their needs with innovative and cost effective solutions. Through empathy, responsiveness and dependability, we seek to become the partner of choice of our customers.

Due to the ever-changing demand of customers, we pay more attention to keep abreast of their demand and expectation from time to time, especially the after-sale evaluation on products and services. We set up an effective customer communication mechanism, with an aim to continuously enhance the ways to respond and handle requirements and improve the communication system in addition to guaranteeing the quality of products and services have met standards. We also conduct customers' satisfaction surveys and take the initiative to contact customers, allowing them to offer their rating and opinions on after-sales service in all aspects, hence driving us to constantly improve.

During the reporting period, there were no non-compliance cases in relation to the quality of product and services laws and regulations.

B7 Anti-corruption

Stella is committed to maintaining a fair and equitable business environment, protecting the interests of the Company, inheriting and developing the Company's traditional corporate culture and reducing the Company's operational risks, whilst maintaining the reputation of the Company and customer brand in the industry, society and the world. We absolutely desist from any form of bribe or accepting bribe to provide commercial benefits, or obtaining any form of benefits by force or threats.

We attach great importance to our sense of honesty and integrity and conduct regular evaluation on the risks of corruption existing among each factory. We will also check whether the rules relating to payment conditions and commission in the agreements entered into between each plant and agent or business partner are clear and appropriate. Besides, the anti-corruption measures approved by suppliers and investigated by customers will also contribute to the mitigation of risks of fraud and money laundering. The Group has also formulated policy documents relevant to anti-corruption covering such areas as bribery, extortion, fraud and money laundering to encourage our staff to report any malpractice and improve their consciousness.

During the reporting period, there were no non-compliance cases in relation to corruption-related laws and regulations.

B8 Community Investment

Stella encourages our employees to support community projects and protect the natural environment. Relevant activities we participated in the reporting period included:

- Tree planting activities to raise our employees' consciousness on environmental protection and greening environment;
- Round-the-city race of "unified efforts to create a civilised city" to improve our employees' awareness of scientific fitness as well as physical quality, whilst coordinating with the labour union at Hongjiang district to promote the creation of a civilised city effectively;
- Caring for the disabled to provide practical help and support to the disabled, helping them to integrate into the society;
- Regular family visits and visiting orphanage activities within the communities where we work;
- Donations to "Shuchona Neurodevelopmental Disorders and Mental Health Foundation" in Bangladesh.


Donation

Tree planting activity

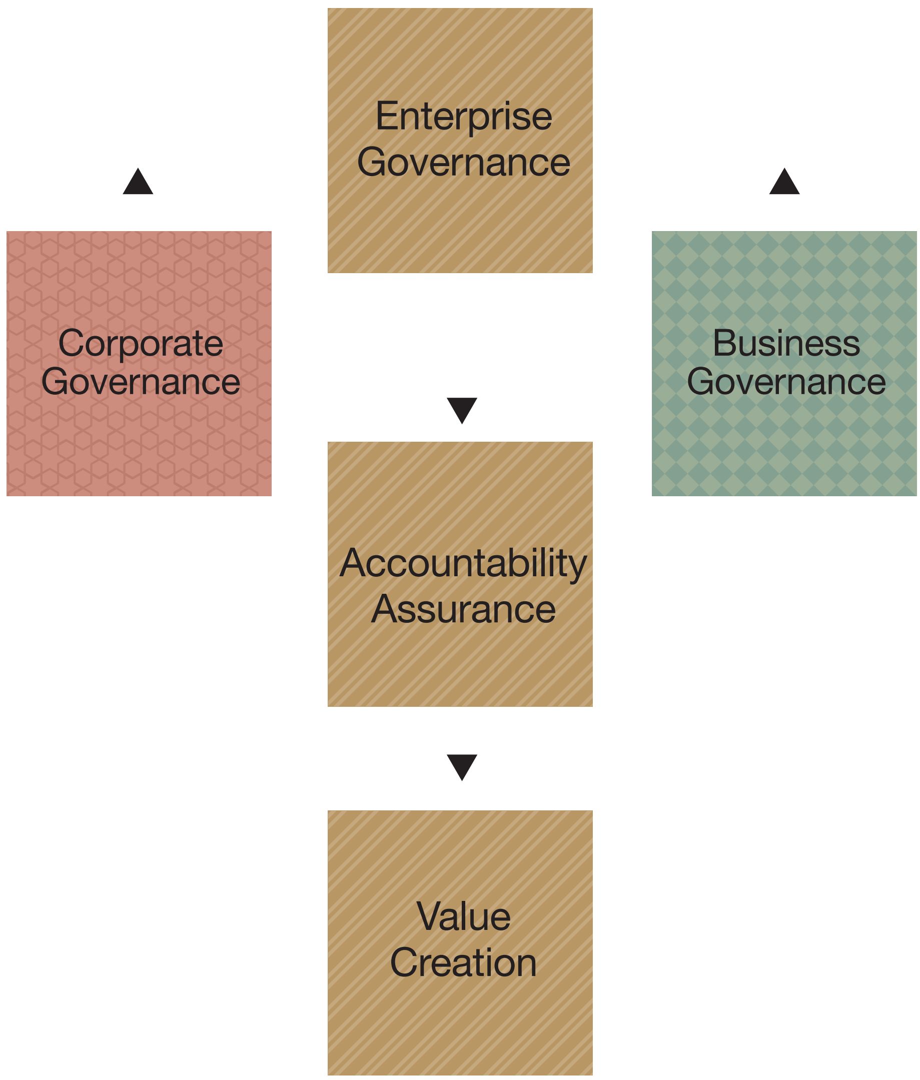
CORPORATE GOVERNANCE REPORT

Building and protecting long-term value

The board (the "Board") of directors (the "Directors") of Stella International Holdings Limited (the "Company") and management of the Company and its subsidiaries (collectively, the "Group") are committed to achieving high standards of corporate governance through increasing transparency, accountability and better risk assessment and mitigation. We believe that high standard of corporate governance practices will translate into long-term returns to the shareholders of the Company (the "Shareholders").

GOVERNANCE MODEL

The Company advocates a governance model which combines both corporate governance and business governance in order to build long-term interests for the Group. Corporate governance emphasises on conformance with relevant laws and regulations while business governance focuses on business performance. We believe the combination of both will enhance accountability and assurance to the Shareholders which are the key drivers for value creation for the Group.



GOVERNANCE FRAMEWORK

The Company's governance framework embodies the following:

- Terms of reference of various Board committees (Audit Committee, Corporate Governance Committee, Executive Committee, Nomination Committee and Remuneration Committee)
- Compliance Manual
- Connected Transactions Manual
- Corporate Disclosure Policy
- Memorandum on Disclosure of (1) Inside Information and (2) Information Necessary to Avoid a False Market
- Board Diversity Policy
- Whistleblowing Policy

Corporate Governance Committee – the 4 Rs

To facilitate more effective implementation of corporate governance practices, a corporate governance committee of the Board (the "Corporate Governance Committee") has been established pursuant to a resolution of all Directors passed on 15 June 2007 with specific written terms of reference which deal clearly with the committee's authority and duties. Focusing on the 4 Rs – regulatory compliance, risk management, investor relations and corporate social responsibilities, the principal roles and functions of the Corporate Governance Committee, as disclosed in greater detail in its terms of reference, include the following major aspects:

1. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
2. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
3. to review the Company's compliance with the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the relevant disclosure in the Company's annual and interim reports;
4. to review and monitor the Company's communication policy and practices with its shareholders and investor communities; and
5. to review and monitor training and continuous professional development of Directors and senior management.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with the code provisions of the CG Code contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2016 except for code provisions B.1.5 and E.1.2, details of which are disclosed below. Save for the deviation from code provisions B.1.5 and E.1.2, the Group has been in compliance with the CG Code in all material respects.

The corporate governance principles and practices of the Company are summarised as below:

A. Directors

A.1 The Board

Principle

The Board assumes the 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 respective responsibilities of the Board and the management of the Company have been formalised and set out in writing. The scope of matters that are retained for the Board's decision are:

- Determination of future development directions
- Determination of overall strategies and policies
- Approval of annual business plan and budget
- Approval of dividend distribution proposals
- Approval of significant investments, merger/acquisition projects, major financing arrangements, connected transactions and material contracts
- Approval of any matters, if considered appropriate, following recommendations by various Board committees
- Approval of other matters that are of a material or substantial nature

The management of the day-to-day operations of the Group is delegated by the Board to the management. In view of facilitating more efficient day-to-day operations of the Group and handle such matters as delegated by the Board from time to time, an executive committee of the Board (the "Executive Committee") has been established pursuant to a resolution of all Directors passed on 9 July 2015, with specific written terms of reference which deal clearly with the committee's authority and duties. In addition, the Board has already established various other Board committees in previous years to discharge their respective responsibilities set out in their respective terms of reference.

The Board regularly reviewed the contribution required from Directors to perform their responsibilities to the Company, and whether they are spending sufficient time performing them.

Code Provisions	Compliance	Corporate Governance Practices
A.1.1 The board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals and to involve active participation of a majority of directors.	✓	The Directors' attendance records for the year 2016 are set out below: **Name of Directors** — **Attendance** **Executive Directors** Mr. Chiang Jeh-Chung, Jack *(Chairman)* — 2/7 Mr. Chao Ming-Cheng, Eric *(Deputy Chairman)* — 3/7 Mr. Chen Li-Ming, Lawrence *(Chief Executive Officer)* — 7/7 Mr. Chi Lo-Jen — 7/7 **Independent Non-executive Directors** Mr. Chen Johnny — 7/7 Mr. Bolliger Peter — 7/7 Mr. Chan Fu Keung, William, *BBS* — 7/7 Mr. Yue Chao-Tang, Thomas — 7/7 **Relationships among the members of the Board** Mr. Chiang Jeh-Chung, Jack is the uncle of Mr. Chi Lo-Jen. Save as aforementioned, there is no other family relationship between any of the Directors, nor are there any financial, business or other material or relevant relationships among the members of the Board.
A.1.2 Arrangements should be in place to ensure that all directors are given an opportunity to include matters in the agenda for regular board meetings.	✓	Draft agenda of regular Board meetings are made available to all Directors in advance so that they may include any additional matters they consider appropriate in the agenda.
A.1.3 Notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. For other board meetings, reasonable notice should be given.	✓	At least 14 days formal notice has been given to all Directors for regular Board meetings. Regular Board meetings in 2017 have already been scheduled to ensure compliance with the CG Code and to facilitate Directors' attendance.

Code Provisions	Compliance	Corporate Governance Practices
A.1.4 Minutes of board meetings and meetings of board committees should be kept by a duly appointed secretary of the meeting and should be open for inspection at any reasonable time on reasonable notice by any director.	✓	The Company Secretary is responsible for preparing minutes of all Board meetings and Board committee meetings; the final versions of which are available for the Directors' inspection at the Company's principal place of business.
A.1.5 Minutes of board meetings and meetings of board committees should record in sufficient detail the matters considered and decisions reached, including any concerns raised by directors or dissenting views expressed. Draft and final versions of minutes should be sent to all directors for their comment and records respectively, within a reasonable time after the board meeting is held.	✓	Minutes of Board meetings and Board committee meetings have recorded in sufficient detail all matters discussed and resolved at such meetings. Draft minutes are circulated to all Directors for comment within a reasonable time after each meeting and final versions of the minutes are circulated to all Directors for records.
A.1.6 There should be a procedure agreed by the board to enable directors, upon reasonable request, to seek independent advice in appropriate circumstances at the issuer's expense. The board should resolve to provide separate independent professional advice to directors to assist them to perform their duties to the issuer.	✓	Directors have been advised in the Directors' appointment letters/service agreements that they are entitled to seek external independent legal advice at the Company's expense. No request was made by any Director for such independent professional advice during the year under review.
A.1.7 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 should be dealt with by a physical board meeting rather than a written resolution. Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting.	✓	Directors are required to declare their interest, if any, in matters before Board meetings, or if such matters are dealt with by written resolutions, in such resolutions. In case the Director(s) concerned has a material conflict of interest, the Director(s) concerned has abstained from voting on the relevant board resolution and is not counted towards the quorum.
A.1.8 An issuer should arrange appropriate insurance cover in respect of legal action against its directors.	✓	A Directors and Officers Liability Insurance Policy is in place to cover the liability of the Company's Directors and officers.

A.2 Chairman and Chief Executive Officer

Principle

There is a clear division of responsibilities between the Chairman and the Chief Executive Officer. Such division of responsibilities has been formalised and set out in writing. The respective responsibilities borne by the Chairman and the Chief Executive Officer are:

Chairman's responsibilities:

- Determines broad strategic direction
- Provides leadership of the Board
- Facilitates effective contribution from non-executive Directors
- Supports and advises, and manages the CEO's performance in terms of realisation of Group's objectives determined by the Board
- Ensures good corporate governance practices and procedures are established
- Maintains an effective communication between the Board, management of the Company and shareholders generally

Chief Executive Officer's responsibilities:

- Provides leadership for the management
- Oversees the realisation by the Group of the objectives determined by the Board
- Provides information to the Board as is necessary to enable the Board to monitor the performance of management
- Leads the management of the Group's relationship with its stakeholders
- Puts in place programmes for management development and succession
- Establishes and maintains proper internal controls and internal audit systems
- Discharges such duties and authorities as may be delegated in writing to him/her by the Board

Appreciating the significant role of the Chairman in providing leadership for the Board, the position of Deputy Chairman has been put in place to assist the Chairman to discharge his responsibilities. Specifically, the Chairman, Mr. Chiang Jeh-Chung, Jack, is mainly responsible for managing major customers' relationship and overseeing strategies of the Group, while the Deputy Chairman, Mr. Chao Ming-Cheng, Eric, is responsible for providing leadership and management to the Board. The Board considers that such allocation of responsibilities between the Chairman and Deputy Chairman enables the Group to enhance its efficiency of the implementation of business plans and be responsive to the needs of our stakeholders. The Board will regularly review the effectiveness of the segregation of roles to ensure its appropriateness under the Group's prevailing circumstances.

Code Provisions	Compliance	Corporate Governance Practices
A.2.1 The roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.	✓	The roles of the Chairman and Chief Executive Officer are separate and have been performed by separate individuals. The division of responsibilities between the two positions have been clearly established and set out in writing.
A.2.2 The chairman should ensure that all directors are properly briefed on issues arising at board meetings.	✓	With the support of the Deputy Chairman, executive Directors, senior management and the Company Secretary, the Chairman ensures that all Directors are properly briefed on issues arising at Board meetings.
A.2.3 The chairman should be responsible for ensuring that directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable.	✓	The information and/or analyses required for the Board's consideration and decision making are included in Board papers that are delivered to Directors for their review in a timely manner.
A.2.4 One of the important roles of the chairman is to provide leadership for the board. The chairman should ensure that the board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by the board in a timely manner. The chairman should be primarily responsible for drawing up and approving the agenda for each board meeting. He should take into account, where appropriate, any matters proposed by the other directors for inclusion in the agenda. The chairman may delegate this responsibility to a designated director or the company secretary.	✓	Such roles are set out in writing and, with the support of the Deputy Chairman, such roles have been complied with.

Code Provisions	Compliance	Corporate Governance Practices
A.2.5 The chairman should take primary responsibility for ensuring that good corporate governance practices and procedures are established.	✓	
A.2.6 The chairman should encourage all directors to make a full and active contribution to the board's affairs and take the lead to ensure that it acts in the best interests of the issuer. The chairman should encourage directors with different views to voice their concerns, allow sufficient time for discussion of issues and ensure that board decisions fairly reflect board consensus.	✓	Such roles and practices are set out in writing and have been complied with.
A.2.7 The chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present.	✓	The Chairman and the Deputy Chairman maintain open dialogue with individual independent non-executive Directors to ensure effective communication.
A.2.8 The chairman should ensure that appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the board as a whole.	✓	Please refer to the section E as described later in this report.
A.2.9 The chairman should promote a culture of openness and debate by facilitating the effective contribution of non-executive directors in particular and ensuring constructive relations between executive and non-executive directors.	✓	Effective contribution of non-executive Directors and communication between executive and non-executive Directors are achieved through discussions in Board meetings, various Board committee meetings and other Board activities/programmes.

A.3 Board composition

Principle

To ensure that the Board has a balance of skills and experience appropriate for the requirements of the business of the Group, a policy of selection and nomination of Directors has been established and set out in writing in our board diversity policy which is articulated in more detail below.

The independent non-executive Directors constitute the majority of the Board so that there is a strong independent element on the Board, which can effectively exercise independent judgment. The independent non-executive Directors are of diversified background and competencies, with appropriate professional qualifications and/or extensive knowledge and experience in their respective business undertakings.

The Board also ensures that changes to its composition can be managed without undue disruption.

Board Diversity Policy

The board diversity policy of the Company is:

1. Policy Statement
   Directors are selected and nominated based on their experience, competencies, skills, geographical network capabilities and cross-border experiences in pursuit of maintaining a board of diversified background and competencies, in order to contribute to more effective board deliberations and business directions of the Group.

2. Nominations and Appointments
   The Nomination Committee is responsible for:
   - reviewing the structure, size and composition of the Board;
   - identifying individuals suitably qualified to become board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorship; and
   - making recommendations to the Board on the appointment or re-appointment of directors and succession for directors.

3. Measurable Objectives
   The Nomination Committee shall develop measurable objectives for implementing this policy, taking into account the Group's strategic plan and business needs.

4. Monitoring, Tracking and Reporting
   The Nomination Committee shall review this policy and report the same to the Board on an annual basis.

   The Nomination Committee shall also report annually, in the Corporate Governance Report a summary of this policy, the measurable objectives for implementing this Policy, and the progress made on achieving such measurable objectives.

The following objectives, which focus on the skills and experience of board members, have been set for implementing the policy:

1. Increase the diversity of functional experience in the board.
2. Increase understanding of our current and target markets.
3. Increase understanding of our target customer segments.

During the year, the following initiatives had been carried out:

1. Review existing board and identify gaps.
2. Review and develop succession plan.

Code Provisions	Compliance	Corporate Governance Practices
A.3.1 The independent non-executive directors should be identified in all corporate communications that disclose the names of directors.	✓	The composition of the Board, by category, is disclosed in all corporate communications.
A.3.2 An issuer should maintain on its website and on the Stock Exchange's website an updated list of its directors identifying their role and function and whether they are independent non-executive directors.	✓	The Company has maintained on its website and on the Stock Exchange's website an updated list of Directors identifying their role and function and whether they are independent non-executive Directors.

A.4 Appointments, re-election and removal

Principle

The Company has maintained a formal, considered and transparent procedure for appointment of new directors. There are in place procedures for the selection and nomination of new Directors to the Board. The appointments of Directors are first reviewed by the Nomination Committee; the recommendations of the Nomination Committee are then proposed to the Board for approval.

The Board has also reviewed the Group's succession planning for senior appointments from time to time.

Code Provisions	Compliance	Corporate Governance Practices
A.4.1 Non-executive directors should be appointed for a specific term, subject to re-election.	✓	The independent non-executive Directors are appointed for a term of three years and are subject to retirement by rotation and re-election at the annual general meetings of the Company.
A.4.2 All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.	✓	
A.4.3 If an independent non-executive director serves more than 9 years, his further appointment should be subject to a separate resolution to be approved by shareholders.	N/A	No independent non-executive Director has served the Board for more than nine years.

A.5 Nomination Committee

Code Provisions	Compliance	Corporate Governance Practices
A.5.1 Issuers should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors.	✓	The Company established the Nomination Committee pursuant to a resolution of all Directors passed on 15 June 2007. The Nomination Committee currently has five members comprising all independent non-executive Directors, namely, Mr. Chen Johnny, Mr. Chan Fu Keung, William, *BBS*, Mr. Yue Chao-Tang, Thomas, Mr. Bolliger Peter and Mr. Lian Jie[(1)]. The chairman of the Nomination Committee is Mr. Chen Johnny. During the year ended 31 December 2016, two Nomination Committee meetings were held and the attendance record is set out below: **Name** — **Attendance** Mr. Chen Johnny *(Chairman)* — 2/2 Mr. Chan Fu Keung, William, *BBS* — 2/2 Mr. Yue Chao-Tang, Thomas — 2/2 Mr. Bolliger Peter — 2/2 During the year, the following work has been performed by the Nomination Committee: (i) reviewed the structure, size and composition of the Board; (ii) reviewed the board diversity policy; (iii) discussed succession planning; (iv) made recommendation as to which Directors shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election; and (v) assessed the independence of independent non-executive Directors.

Code Provisions	Compliance	Corporate Governance Practices
A.5.2 The nomination committee should be established with specific written terms of reference which deal clearly with its authority and duties.	✓	The Nomination Committee was established with specific written terms of reference which deal clearly with its authority and duties. The principal role and function of the Nomination Committee include reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorship, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.
A.5.3 The nomination committee should make available its terms of reference explaining its role and the authority delegated to it by the board by including them on the Stock Exchange's website and the issuer's website.	✓	The terms of reference of the Nomination Committee are posted on the Stock Exchange's website and the Company's website.
A.5.4 Issuers should provide the nomination committee sufficient resources to perform its duties. Where necessary, the nomination committee should seek independent professional advice, at the issuer's expense, to perform its responsibilities.	✓	The Nomination Committee has been provided with sufficient resources to perform its duties. In particular, the Nomination Committee is empowered to obtain independent professional advice, and any expenses incurred shall be borne by the Company.
A.5.5 Where the board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he should be elected and the reasons why they consider him to be independent.	✓	Mr. Lian Jie, being the independent non-executive appointed by the Board with effect from 1 February 2017 will be subject to the re-appointment at the upcoming annual general meeting to be held In 2017. A circular containing their biographical information and explanation for their independence will be despatched to the shareholders for their information in due course.
A.5.6 The nomination committee (or the board) should have a policy concerning diversity of board members, and should disclose the policy or a summary of the policy in the corporate governance report.	✓	Please refer to the disclosure made under A.3 in this report.

A.6 Responsibilities of directors

Principle

Every Director knows his responsibilities as a Director and the conduct, business activities and development of the Group. Independent non-executive Directors understand they have the same duties of care and skill and fiduciary duties as executive Directors.

Code Provisions	Compliance	Corporate Governance Practices
A.6.1 Every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on appointment. Subsequently he should receive any briefing and professional development necessary to ensure that he has a proper understanding of the operations and business and is fully aware of his responsibilities under statute and common law, the Listing Rules, legal and other regulatory requirements and the issuer's business and governance policies.	✓	All newly appointed Directors have received induction program on appointments, which are tailored to their background, experience and their role in the Group and are designed to enable them to better understand the operations and business of the Group. The program includes an induction package given to newly appointed Directors, which comprises a brief introduction of the Group's business and the statutory and regulatory obligations of a director of a listed company. Independent non-executive Directors are invited to site visits of major operating units of the Group and briefed by the Company's executive Directors and senior management on the Group's business and governance practices. Subsequently Directors also receive monthly updates comprising the Group's financial Information and order outlook. In addition, they also receive market intelligence materials (called Monthly Industry Tracker), for them to better appraise the industry in which the Group operates. During the year, Directors also participated in training sessions for update on changes to the legal and regulatory environments in which the Group operates.
A.6.2 The functions of non-executive directors should include: (a) participating in board meetings to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct; (b) taking the lead where potential conflicts of interests arise; (c) serving on the audit, remuneration, nomination and other governance committees, if invited; and (d) scrutinising the issuer's performance in achieving agreed corporate goals and objectives, and monitoring performance reporting.	✓	The independent non-executive Directors have exercised independent judgment on issues discussed at Board meetings. They have also scrutinised the Company's performance by reviewing the business and financial performance updates at regular Board meetings and following up any outstanding issues after such meetings.

Code Provisions	Compliance	Corporate Governance Practices
A.6.3 Every director should ensure that he can give sufficient time and attention to the issuer's affairs and should not accept the appointment if he cannot do so.	✓	All executive Directors have in-depth industry knowledge and established track record, whose interests are aligned with that of the Company. Every Director has given sufficient time and attention to the Company's affairs. The independent non-executive Directors have brought a wide spectrum of their extensive knowledge and experience in their respective business undertakings to the Board for the fullest performance of its functions.
A.6.4 The board should establish written guidelines no less exacting than the Model Code for relevant employees in respect of their dealings in the issuer's securities.	✓	The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code for dealing in securities of the Company by the Directors. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have complied with the required standard set out in the Model Code during the year. The Company will reiterate and remind the Directors from time to time the relevant rules and requirements in relation to Directors' dealing in securities to ensure the compliance of the Model Code. The persons occupying the following positions are regarded as the relevant employees of the Company subject to the restrictions on dealings in the Company's shares under the Model Code: Chief Executive Officer Chief Operating Officer Chief Financial Officer Company Secretary Head of Investor Relations

Code Provisions	Compliance	Corporate Governance Practices
A.6.5 All directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. The issuer should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director. Note: Directors should provide a record of the training they received to the issuer.	✓	The Company is responsible for arranging and funding continuous professional development program for the Directors. Please refer to the disclosure made under A.6.1 in this report. All Directors are required to provide the Company with their training records. During the year, the Directors participated in the kinds of training as follows: **Name of Directors** — **Kinds of Training** **Executive Directors** Mr. Chiang Jeh-Chung, Jack *(Chairman)* — A, B, C Mr. Chao Ming-Cheng, Eric *(Deputy Chairman)* — A, B, C Mr. Chen Li-Ming, Lawrence *(Chief Executive Officer)* — A, B, C Mr. Chi Lo-Jen — A, B, C **Independent Non-executive Directors** Mr. Chen Johnny — A, B, C Mr. Bolliger Peter — A, B, C Mr. Chan Fu Keung, William, *BBS* — A, B, C Mr. Yue Chao-Tang, Thomas — A, B, C A: Legal/regulatory B: Business C: Financial
A.6.6 Each director should disclose to the issuer at the time of his appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments.	✓	The Directors are required to confirm to the Company at the time of appointment, and subsequently bi-annually any change, the number and nature of offices held in public companies or organisations and other significant commitments.
A.6.7 Independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders.	✓	Please refer to the disclosure made under A.1.1, A.6.2 and A.6.3 in this report.
A.6.8 Non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments.	✓	Please refer to the disclosure made under A.6.2 and A.6.3 in this report.

A.7 Supply of and access to information

Principle

Directors have been provided in a timely manner with appropriate information in the form and quality to enable them to make an informed decision and perform their duties and responsibilities.

Code Provisions	Compliance	Corporate Governance Practices
A.7.1 For regular board meetings, and as far as practicable in all other cases, an agenda and accompanying board papers should be sent, in full, to all directors. These should be sent in a timely manner and at least 3 days before the intended date of board or board committee meeting (or other agreed period).	✓	Board papers are sent to the Directors for review at such period as agreed before the Board or Board committee meetings.
A.7.2 Management has an obligation to supply the board and its committees with adequate information, in a timely manner, to enable it to make informed decisions. The information supplied must be complete and reliable. To fulfill his duties properly, a director may not, in all circumstances, be able to rely purely on information provided voluntarily by management and he may need to make further enquiries. Where any director requires more information than is volunteered by management, he should make further enquiries where necessary. So, the board and individual directors should have separate and independent access to the issuer's senior management.	✓	The relevant senior management attends all regular meetings of the Board and its committees to present the Group's business/financial performance to the Board and individual Directors and answer all questions of the Board and individual Directors on the matters discussed at such meetings. The Directors have separate and independent access to the Company's senior management to keep themselves abreast of business activities, financial performance, internal audit and internal control progress in the Group.
A.7.3 All directors are entitled to have access to board papers and related materials. These papers and related materials should be in a form and quality sufficient to enable the board to make informed decisions on matters placed before it. Queries raised by directors should receive prompt and full response, if possible.	✓	Please refer to the disclosure made under A.7.1 and A.7.2 in this report.

B. Remuneration of Directors and Senior Management and Board Evaluation

B.1 The level and make-up of remuneration and disclosure

Principle

There is sufficient disclosure on Directors' remuneration policy and other remuneration related matters. A formal and transparent procedure for setting policy on executive Directors' remuneration and for fixing the remuneration packages for all Directors has been in place. No Director has been involved in deciding his/her own remuneration.

The Remuneration Committee

The Company established the Remuneration Committee pursuant to a resolution of all Directors passed on 15 June 2007. For the year ended 31 December 2016, the Remuneration Committee had three members comprising all independent non-executive Directors, Mr. Chan Fu Keung, William, *BBS*, Mr. Yue Chao-Tang, Thomas and Mr. Chen Johnny. The chairman of the Remuneration Committee is Mr. Chan Fu Keung, William, *BBS*.

The principal role and function of the Remuneration Committee are making recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration, reviewing and making recommendation to the Board the management's remuneration proposals for Directors and reviewing the Group's overall human resources strategy.

During the year ended 31 December 2016, five Remuneration Committee meetings were held, and the attendance records are set out below:

Name	Attendance
Mr. Chan Fu Keung, William, *BBS (Chairman)*	5/5
Mr. Yue Chao-Tang, Thomas	5/5
Mr. Chen Johnny	5/5

During the year, the following regular work has been performed by the Remuneration Committee:

(i) reviewed the Group's human resources and remuneration strategies;
(ii) reviewed and determined the policy for the remuneration of executive Directors;
(iii) reviewed the performance of executive Directors and senior management; and
(iv) made recommendations to the Board on the proposed remuneration packages of individual Directors and senior management.

In addition, the Remuneration Committee has, as a part of the Company's Board Evaluation Program and with the assistance of an independent consultant, performed a formal review of directors' fee structure. As a result of the review, a new fee structure has been adopted which has more accurately reflected Directors' different levels of participation in the Board Committees and different nature of each respective committee.

Furthermore, the Remuneration Committee has reviewed and discussed various share incentive proposals, including a long term incentive scheme and a share award plan, with an aim to attract, retain and motivate high calibre people to contribute to the Group's long term development. For details, please refer to the paragraphs headed "Long Term Incentive Scheme" and "Share Award Plan" in the Directors' Report in this annual report.

Code Provisions	Compliance	Corporate Governance Practices
B.1.1 The remuneration committee should consult the chairman and/or chief executive about their proposals for other executive directors. The remuneration committee should have access to independent professional advice if necessary.	✓	The procedure for setting policy on executive Directors' remuneration is as follows: (i) The Company's management makes recommendations to the Remuneration Committee on the executive Directors' remuneration; (ii) the Remuneration Committee then reviews these recommendations (with access to professional advice if considered necessary and at the Company's expense) and proposes the final remuneration package to the Board for approval; and (iii) No Director or any of his or her associates is involved in deciding his or her own remuneration.
B.1.2 The remuneration committee's terms of reference should include: (a) to make recommendations to the board on the issuer's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (b) to review and approve the management's remuneration proposals with reference to the board's corporate goals and objectives; (c) either: (i) to determine, with delegated responsibility, the remuneration packages of individual executive directors and senior management; or (ii) to make recommendations to the board on the remuneration packages of individual executive directors and senior management;	✓	The Remuneration Committee was established with specific written terms of reference which deal clearly with the committee's authority and duties and followed closely the CG Code requirements. The Remuneration Committee adopts the model of making recommendations to the Board on the remuneration packages of individual executive directors and senior management.

Code Provisions	Compliance	Corporate Governance Practices
(d) to make recommendations to the board on the remuneration of non-executive directors; (e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group; (f) to review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; (g) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and (h) to ensure that no director or any of his associates is involved in deciding his own remuneration.		
B.1.3 The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board by including on the Stock Exchange's website and the issuer's website.	✓	The terms of reference of the Remuneration Committee are posted on the Stock Exchange's website and the Company's website.
B.1.4 The remuneration committee should be provided with sufficient resources to perform its duties.	✓	The Remuneration Committee has full access to the human resources personnel and senior management if required to obtain any information relating to the human resources structure of the Group so as to facilitate making appropriate remuneration-related recommendations and proposals. The Remuneration Committee also has access to independent professional advice at the Company's expense if considered necessary.
B.1.5 Issuers should disclose details of any remuneration payable to members of senior management by band in their annual report.	✗	To observe the competitive market practices and to respect individual privacy, the Company did not make such disclosure in its annual report and accounts.

Recommended Best Practices	Compliance	Corporate Governance Practices
B.1.6 Where the board resolves to approve any remuneration or compensation arrangements which the remuneration committee disagrees, the board must disclose the reasons for its resolution in its next Corporate Governance Report.	N/A	No such disagreement happened for the year ended 31 December 2016.
B.1.7 A significant proportion of executive directors' remuneration should link rewards to corporate and individual performance.	✓	For the year ended 31 December 2016, the executive Directors' performance-based remuneration related to their executive roles constituted 80.0% on average of their total remuneration.
B.1.8 Issuers should disclose details of any remuneration payable to members of senior management, on an individual and named basis, in their annual reports and accounts.	✗	To observe the competitive market practices and to respect individual privacy, the Company did not make such disclosure in its annual report and accounts.
B.1.9 The board should conduct a regular evaluation of its performance.	✓	The Board has adopted a board evaluation programme with the following objectives: (i) reviewing current Board and committee practices with the view to improving efficiency and effectiveness; (ii) providing a periodic opportunity for the Board to review the company's corporate governance framework; (iii) testing Directors' knowledge of the business and its strategic situation; (iv) assessing the balance of skills, knowledge and experience on the Board and its committees; (v) identifying weaknesses that can be remedied by training and development; and (vi) improving the Board composition. The Board believes that board evaluation is an on-going process and shall continuously assess its performance on a regular basis.

C. Accountability and audit

C.1 Financial reporting

Principle

The Board should present a balanced, clear and comprehensive assessment of the Company's performance, position and prospects.

Code Provisions	Compliance	Corporate Governance Practices
C.1.1 Management should provide sufficient explanation and information to the board to enable it to make an informed assessment of financial and other information put before it for approval.	✓	Before the commencement of a new financial year, annual business plan and budget are presented to the Board for approval. To evaluate the performance of the Group, presentation of business review and financial analysis of the Group is made to the Board by the management at Board meetings at relevant Board meetings to approve the financial results of the Group.
C.1.2 Management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.	✓	The management provides monthly updates to the Board members, giving a balanced and understandable assessment of the Group's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties. The monthly updates comprise internal financial information comparing to budget, industry peer comparison, as well as market intelligence.

Code Provisions	Compliance	Corporate Governance Practices
C.1.3 The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts. There should be a statement by the auditors about their reporting responsibilities in the auditor's report on the financial statements. Unless it is inappropriate to assume that the company will continue in business, the directors should prepare the accounts on a going concern basis, with supporting assumptions or qualifications as necessary. Where the directors are aware of material uncertainties relating to events or conditions that may cast significant doubt on the issuer's ability to continue as a going concern, they should be clearly and prominently disclosed and discussed at length in the Corporate Governance Report. The Corporate Governance Report should contain sufficient information for investors to understand the severity and significance of matters. To a reasonable and appropriate extent, the issuer may refer to other parts of the annual report. These references should be clear and unambiguous and the Corporate Governance Report should not contain only a cross-reference without any discussion of the matter.	✓	Directors and auditor of the Company have stated their responsibilities on pages 77 and 101 respectively of this annual report. The Board is responsible for the preparation of financial statements of the Company and ensuring that they give a true and fair view of the state of affairs of the Company according to the relevant statutory requirements and accounting standards. The Directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

Code Provisions	Compliance	Corporate Governance Practices
C.1.4 The directors should include in the separate statement containing a discussion and analysis of the group's performance in the annual report, an explanation of the basis on which the issuer generates or preserves value over the longer term (the business model) and the strategy for delivering the issuer's objectives.	✓	Under the management discussion and analysis section of this annual report, a separate statement has been made to describe the Group's business model and the strategy for delivering the Group's objectives.
C.1.5 The board should present a balanced, clear and understandable assessment in annual and interim reports, other price-sensitive announcements and other financial disclosures required by the Listing Rules. It should also do so for reports to regulators and information disclosed under statutory requirements.	✓	Legal advisers have been retained and are consulted from time to time to assist the board in ensuring that disclosures in financial reports, announcements and any other reports and statements have presented a balanced, clear and understandable assessment of the position of the Group.
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
C.1.6 An issuer should announce and publish quarterly financial results within 45 days after the end of the relevant quarter.	✗	In order to provide the Shareholders with pertinent information relating to the business and operations of the Company on a more timely basis, the Company has voluntarily reported on its quarterly business development. Consequently, the Company discontinued publishing voluntary quarterly financial results commencing from the first quarter of 2009.
C.1.7 Once an issuer announces quarterly financial results, it should continue to do so for each of the first 3 and 9 months periods of subsequent financial years. Where it decides not to continuously announce and publish its financial results for a particular quarter, it should announce the reasons for such decision.	✗	Please refer to the disclosure made under C.1.6 in this report.

C.2 Risk Management and Internal control

Principle

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectiveness, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Accordingly, the Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. The Board should oversee management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the Board on the effectiveness of these systems.

Code Provisions	Compliance	Corporate Governance Practices
C.2.1 The board should oversee the issuer's risk management and internal control systems on an ongoing basis, ensure that a review of the effectiveness of the issuer's and its subsidiaries' risk management and internal control systems has been conducted at least annually and report to the shareholders that it has done so in its Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls.	✓	The effectiveness of the risk management and internal control systems (covering financial, operational and compliance controls) and specifically, the progress of internal audit (in various operating aspects such as fixed assets, sales, purchase, wage and production) are reviewed, and their respective aspects that can be further strengthened are identified, at the regular Audit Committee meetings corresponding to the financial reporting periods. The findings at such meetings are reported subsequently at Board meetings to enable the Directors to assess the effectiveness of the risk management and internal control systems of the Group and impel them to improve constantly, which helps manage enterprise risks and improve its risks mitigation. The Board considers such review effective and adequate. The Group's risk management and internal control systems and internal audit manual have been reviewed comprehensively and implemented according to internal operation flow and business environment changes and obtained affirmative assessment of a third-party professional body. This system, which is COSO-based, comprises 5 elements: control environment, risk assessment, control activities, information and communication, and monitoring.

Code Provisions	Compliance	Corporate Governance Practices
		The internal control procedures of the Group include strategic control, management control and business process control. The internal control procedures are designed to safeguard the integrity of business processes (including financial and human assets, data/information and applicable systems), improve business effectiveness and efficiency, improve the quality of information for decision-making, as well as maintain a high standard of corporate governance. For the handling and dissemination of inside information, a Memorandum on Disclosure of (1) Inside Information and (2) Information Necessary to Avoid a False Market (the "Inside Information Memorandum") has been adopted by the Board since March 2013 with an aim to give guidance on the managing, protection and disclosure of inside information as well as the disclosure of information necessary for avoidance of a false market. Under the Inside Information Memorandum, the control mechanism embodies (1) control structure and; (2) control process, which are articulated as below: Control Structure Monitors business and corporate developments to identify and escalate potential inside information to attention of the designated officers, committee or the Board. Control Process The internal control functions are vested in the internal audit team which reports directly to the Audit Committee and the Chief Executive Officer of the Company. Deloitte Touche Tohmatsu, the Company's external auditor, reported on matters concerning internal control of the Group for the year ended 31 December 2016 in accordance with Hong Kong Standards on Auditing to the Audit Committee during its regular meetings.

Code Provisions	Compliance	Corporate Governance Practices
C.2.2 The board's annual review should, in particular, ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer's accounting, internal audit and financial reporting functions.	✓	
C.2.3 The board's annual review should consider: (a) the changes, since the last annual review, in the nature and extent of significant risks; and the issuer's ability to respond to changes in its business and external environment; (b) the scope and quality of management's ongoing monitoring of risks and of the internal control system; (c) the extent and frequency of communication of monitoring results to the board which enables it to assess control of the issuer and the effectiveness of risk management; (d) significant control failings or weaknesses that have been identified during the period; and (e) the effectiveness of the issuer's processes for financial reporting and Listing Rule compliance.	✓	The Company's review has generally covered the aspects as referred to in C.2.3 of the CG Code.

Code Provisions	Compliance	Corporate Governance Practices
C.2.4 Issuers should disclose, in the Corporate Governance Report, a narrative statement on how they have complied with risk management and internal control code provisions during the reporting period. In particular, they should disclose: (a) the process used to identify, evaluate and manage significant risks; (b) the main features of the risk management and internal control systems; (c) an acknowledgement by the board that it is responsible for the risk management and internal control systems and reviewing their effectiveness. It should also explain that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss; (d) the process used to review the effectiveness of the risk management and internal control systems and to resolve material internal control defects; and (e) the procedures and internal controls for the handling and dissemination of inside information.	✓	Please refer to the disclosure made under C.2 and C.2.1 in this report.
C.2.5 The issuers should have an internal audit function. Issuers without an internal audit function should review the need for one on an annual basis and should disclose the reasons for the absence of such a function in the Corporate Governance Report.	✓	As set out under C.2.1 in this report, the Group has an internal audit team which reports directly to the Audit Committee and the Chief Executive Officer of the Company.
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
C.2.6 The board may disclose in the Corporate Governance Report that it has received a confirmation from management on the effectiveness of the issuer's risk management and internal control systems.	✓	The Board has received a confirmation from management on the effectiveness of the Group's risk management and internal control systems.
C.2.7 The board may disclose in the Corporate Governance Report details of any significant areas of concern.	N/A	

C.3 Audit Committee

Principle

The Board should establish formal and transparent arrangements to consider how it will apply financial reporting, risk management and internal control principles and maintain an appropriate relationship with the Company's auditor.

The Company established the Audit Committee pursuant to a resolution of all Directors passed on 15 June 2007. The Audit Committee currently has four members comprising four independent non-executive Directors, namely Mr. Yue Chao-Tang, Thomas, Mr. Chen Johnny, Mr. Chan Fu Keung, William, *BBS*, and Mr. Lian Jie[(1)].

The principal duties of the Audit Committee include the review of the relationship with the Company's external auditor, review of the financial information of the Company, oversight of the Company's financial reporting system, risk management and internal control systems, and the review of the Company's compliance with any applicable laws and regulations.

The Audit Committee meets with the external auditor annually in the absence of the Company's management, to discuss matters relating to audit fees, any issues arising from the audit and any other matters the external auditor or the Audit Committee may wish to raise.

During the year ended 31 December 2016, three Audit Committee meetings were held, and the attendance records are set out below:

Name	Attendance
Mr. Yue Chao-Tang, Thomas *(Chairman)*	3/3
Mr. Chen Johnny	3/3
Mr. Chan Fu Keung, William, *BBS*	3/3

During the year, the following work has been performed by the Audit Committee:

(i) reviewed financial reporting system;
(ii) reviewed the risk management and internal control systems;
(iii) reviewed the report of I.T. department;
(iv) reviewed and discussed interim and annual results; and
(v) monitored the Group's tax matters.

External Auditor and Auditor's Remuneration

The remuneration paid/payable to the external auditor of the Company, Deloitte Touche Tohmatsu, in respect of audit services and non-audit services provided to the Group for the year ended 31 December 2016 was US$489,000 and US$51,060 respectively. The non-audit services related primarily to tax consulting services. The external auditor will not be engaged for non-audit services unless such services constitute permissible non-audit services which should be endorsed by the Audit Committee.

Code Provisions	Compliance	Corporate Governance Practices
C.3.1 Full minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of meetings should be sent to all members of the committee for their comment and records, within a reasonable time after the meeting.	✓	The Company Secretary is responsible for preparing minutes of all Audit Committee meetings and such minutes have recorded in sufficient detail all matters discussed and resolved at such meetings. Draft minutes are circulated to all members for comment within a reasonable time after each meeting and final version of the minutes is circulated to all the Directors for records.
C.3.2 A former partner of the issuer's existing auditing firm should be prohibited from acting as a member of its audit committee for a period of 1 year from the date of his ceasing (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is later.	✓	None of the members of the Audit Committee are former partners of the Company's existing auditing firm.
C.3.3 The audit committee's terms of reference should include at least: (a) Relationship with the issuer's auditor; (b) Review of issue's financial information; (c) Oversight of the issuer's financial reporting system, risk management and internal control systems.	✓	The Audit Committee was established with specific written terms of reference which have complied with the CG Code requirements.
C.3.4 The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board by including them on the Stock Exchange's website and the issuer's website.	✓	The terms of reference are posted on the Stock Exchange's website and the Company's website.
C.3.5 Where the board disagrees with the audit committee's views on the selection, appointment, resignation or dismissal of the external auditor, the issuer should include in the Corporate Governance Report a statement from the audit committee explaining its recommendation and also the reasons why the board has taken a different view.	N/A	During the year, there was no such disagreement, but the Board shall endeavour to comply with the requirement when such situation arises.

Code Provisions	Compliance	Corporate Governance Practices
C.3.6 The audit committee should be provided with sufficient resources to perform its duties.	✓	The Audit Committee has full access to the executive Directors, the senior management and internal audit team for any information relating to the Company's financial performance, financial reporting system, risk management and internal control systems to facilitate the process of making appropriate recommendations and proposals. In addition, the Audit Committee may obtain advice from the external legal and other independent professional advice whenever they consider necessary.
C.3.7 The terms of reference of the audit committee should also require it: (a) to review arrangements employees of the issuer can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The audit committee should ensure that proper arrangements are in place for the fair and independent investigation of these matters and for appropriate follow-up actions; and (b) to act as the key representative body for overseeing the issuer's relation with the external auditor.	✓	The terms of reference of the Audit Committee have covered the two items as referred to C.3.7 of the CG Code.
Recommended Best Practices	**Compliance**	**Corporate Governance Practices**
C.3.8 The audit committee should establish a whistleblowing policy and system for employees and those who deal with the issuer to raise concerns, in confidence, with the audit committee about possible improprieties in any matter related to the issuer.	✓	

D. Delegation by the Board

D.1 Management functions

Principle

The Company has established a formal schedule of matters specifically reserved for board approval. The respective responsibilities of the Board and the management of the Company have been formalised and set out in writing. Such separation of responsibilities has been articulated under A.1 in this report.

Code Provisions	Compliance	Corporate Governance Practices
D.1.1 When the board delegates aspects of its management and administration functions to management, it must, at the same time, give clear directions as to the management's powers, in particular, where management should report back and obtain prior board approval before making decisions or entering into any commitments on the issuer's behalf.	✓	Management meetings are held periodically where executive Directors and heads of senior management of the respective business divisions are present and clear directions are given as to the management's powers.
D.1.2 An issuer should formalise the functions reserved to the board and those delegated to management. It should review those arrangements periodically to ensure that they remain appropriate to the issuer's needs.	✓	Please refer to the disclosure made under A.1 in this report.
D.1.3 An issuer should disclose the respective responsibilities, accountabilities and contributions of the board and management.	✓	Executive Directors assume the day-to-day management functions in their respective business divisions in the Group so that those affected by corporate decisions in each business division are fully aware of the division of responsibilities between the Board and the management.
D.1.4 Directors should clearly understand delegation arrangements in place. Issuers should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.	✓	The respective responsibilities of the Board and the management of the Company have been formalised and set out in writing.

D.2 Board Committees

Principle

Board committees should be formed with specific written terms of reference which deal clearly with their authority and duties.

D.2.1 Where board committees are established to deal with matters, the board should give them sufficiently clear terms of reference to enable them to perform their functions properly.	✓	The Board committees were established with their respective specific terms of reference.
D.2.2 The terms of reference of board committees should require them 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).	✓	This requirement is satisfied in the respective terms of reference of each Board committee of the Company.

D.3 Corporate Governance Functions

For the year ended 31 December 2016, the Corporate Governance Committee had three members comprising all independent non-executive Directors, namely Mr. Bolliger Peter, Mr. Chan Fu Keung, William, *BBS* and Mr. Yue Chao-Tang, Thomas. The chairman of the Corporate Governance Committee is Mr. Bolliger Peter.

During the year ended 31 December 2016, three Corporate Governance Committee meetings were held, and the attendance records are set out below:

Name of Directors	Attendance
Mr. Bolliger Peter *(Chairman)*	3/3
Mr. Yue Chao-Tang, Thomas	3/3
Mr. Chan Fu Keung, William, *BBS*	3/3

During the year, the following work has been performed by the Corporate Governance Committee:

(i) reviewed annual corporate governance report and corporate social responsibilities report and related disclosure in the annual and interim reports;
(ii) reviewed corporate governance framework;
(iii) reviewed the board evaluation program;
(iv) reviewed corporate disclosure policy; and
(v) reviewed training and continuous professional development of Directors and senior management.

Code Provisions	Compliance	Corporate Governance Practices
D.3.1 The terms of reference of the board (or a committee or committees performing this function) should include at least: (a) to develop and review an issuer's policies and practices on corporate governance and make recommendations to the board; (b) to review and monitor the training and continuous professional development of directors and senior management; (c) to review and monitor the issuer's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and (e) to review the issuer's compliance with the code and disclosure in the Corporate Governance Report.	✓	The Board has delegated the corporate governance functions to the Corporate Governance Committee. The terms of reference of the Corporate Governance Committee have covered the aspects as referred to in D.3.1 of the CG Code.
D.3.2 The board should be responsible for performing the corporate governance duties set out in the terms of reference in D.3.1 or it may delegate the responsibility to a committee or committees.	✓	Please refer to the disclosure made under D.3.1 in this report.

E. Communication with Shareholders

E.1 Effective communication

Principle

The Board endeavours to maintain an on-going dialogue with the Shareholders and in particular, use annual general meetings or other general meetings, financial reports and corporate websites to communicate with the Shareholders. In addition, the Company's spokespersons meet with research analysts and the press on a regular basis, attend major investors' conferences and participate in international non-deal roadshow in order to maintain a continuing communication with the institutional analysts, investors and financial media.

Shareholders' Rights

(a) How Shareholders can convene an extraordinary general meeting

In accordance with article 58 of the Company's articles of association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(b) The procedures for sending enquiries to the Board

Shareholders may put enquiries to the Board (i) in writing to the Company's registered office in Hong Kong (Flat C, 20/F, MG Tower, 133 Hoi Bun Road, Kowloon, Hong Kong) for attention to the Company Secretary or (ii) by email at stella@stella.com.hk or (iii) by attending the Company's annual general meeting or extraordinary general meeting.

(c) The procedures for putting forward proposals at Shareholders' meetings

(i) proposal relating to election of a person other than a Director as a Director

In accordance with article 88 of the Company's articles of association, if a Shareholder wishes to propose a person other than a Director for election as a Director at any general meeting, a notice signed respectively by that Shareholder giving his intention to propose such person for election and stating the full name of the person proposed for election as a Director, including the person's biographical details as required by rule 13.51(2) of the Listing Rules, and also the person to be proposed of his willingness to be elected as Director, be lodged at the Company's registered office in Hong Kong (Flat C, 20/F, MG Tower, 133 Hoi Bun Road, Kowloon, Hong Kong) attention to the Company Secretary. The minimum length of the period, during which such notices are given, shall be at least seven days and that (if the notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such notices shall commence on the day after dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

The Company has published the above procedures relating to Shareholder's right to propose a person for election as a Director on the Company's website.

(ii) other proposals

If a Shareholder wishes to make other proposals at Shareholders' meeting, he may lodge a written request, duly signed, at the Company's registered office in Hong Kong (Flat C, 20/F, MG Tower, 133 Hoi Bun Road, Kowloon, Hong Kong) attention to the Company Secretary.

Change in constitutional documents

During the year, there is no change in the Company's memorandum and articles of association.

Code Provisions	Compliance	Corporate Governance Practices
E.1.1 For each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting. Issuers should avoid "bundling" resolutions unless they are interdependent and linked forming one significant proposal. Where the resolutions are "bundled", issuers should explain the reasons and material implications in the notice of meeting.	✓	At the annual general meeting held on 27 May 2016 ("2016 AGM"), separate resolutions were proposed by the chairman of the meeting in respect of each substantially separate issue in accordance with E.1.1 of the CG Code. The 2016 AGM was held on 27 May 2016 at the Marco Polo Prince Hotel, Harbour City, Kowloon, Hong Kong. The major items discussed are set out below: (i) to approve the audited consolidated financial statements of the Group and the report of the Directors and the auditor of the Company; (ii) to declare a final dividend; (iii) to re-elect Directors; (iv) to re-appoint the auditor of the Company; (v) to grant general mandate to Directors to issue additional shares in the Company, not exceeding 5% of the issued share capital; and (vi) to grant general mandate to Directors to purchase shares in the Company not exceeding 10% of the issued capital. Voting of all resolutions were conducted by poll and all resolutions were approved by Shareholders. The results of the voting had been published on the Stock Exchange's website and the Company's website.

Code Provisions	Compliance	Corporate Governance Practices
E.1.2 The chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval. An issuer's management should ensure the external auditor attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.	Partially complied with	The Chairman had not attended the 2016 AGM. Instead, Mr. Chao Ming-Cheng, Eric, the Deputy Chairman, took the chair at the 2016 AGM, and the chairman or member of the Audit Committee, the Corporate Governance Committee, the Remuneration Committee and the Nomination Committee attended the 2016 AGM to answer Shareholders' questions. The reason for such arrangement is that the Board has allocated different responsibilities to the Chairman and the Deputy Chairman. Please refer to the disclosure made under A.2 in this report. In addition, Deloitte Touche Tohmatsu, the Company's external auditor, had attended the 2016 AGM to answer Shareholders' questions. The Directors' attendance record for the 2016 AGM held on 27 May 2016 is set out below: Name of Directors — Attendance Executive Directors Mr. Chiang Jeh-Chung, Jack *(Chairman)* — 0/1 Mr. Chao Ming-Cheng, Eric — 1/1 Mr. Chen Li-Ming, Lawrence *(Chief Executive Officer)* — 0/1 Mr. Chi Lo-Jen — 0/1 Independent Non-executive Directors Mr. Chen Johnny — 1/1 Mr. Bolliger Peter — 0/1 Mr. Chan Fu Keung, William, *BBS* — 1/1 Mr. Yue Chao-Tang, Thomas — 0/1
E.1.3 The issuer should arrange for the notice to shareholders to be sent for annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days for all other general meetings.	✓	For the 2016 AGM, the notices to Shareholders were sent more than 20 clear business days before the meeting.

Code Provisions	Compliance	Corporate Governance Practices
E.1.4 The board should establish a shareholders' communication policy and review it on a regular basis to ensure its effectiveness.	✓	The Company maintains a Corporate Disclosure Policy on which the framework of Shareholders' communication policy is built. In the Corporate Disclosure Policy, the following major aspects are dealt with: (a) to determine the authorised Company; spokespersons and their responsibilities; (b) to give guidelines to employees; (c) to determine policy on communicating with media; (d) to determine policy on meetings with analysts and on reviewing analyst reports; (e) to determine policy on commenting on analysts' earnings estimates and earnings forecasts; (f) to determine policy on responding to rumours/leaks/ inadvertent disclosures; and (g) to determine policy on forward-looking statements. The Corporate Governance Committee reviews this Corporate Disclosure Policy on an annual basis.

E.2 Voting by Poll

Principle

The Company should ensure that Shareholders are familiar with the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the Company.

Code Provisions	Compliance	Corporate Governance Practices
E.2.1 The chairman of a meeting should ensure that an explanation is provided of the detailed procedures for conducting a poll and answer any questions from shareholders on voting by poll.	✓	Detailed explanation regarding the procedures for demanding poll by Shareholders had been provided at the commencement of the 2016 AGM.

F. Company Secretary

Principle

The Company Secretary plays an important role in supporting the Board by ensuring good information flow within the Board and that Board policy and procedures are followed. The Company Secretary is responsible for advising the Board through the Deputy Chairman on governance matters and also facilitating induction and professional development of Directors.

Code Provisions	Compliance	Corporate Governance Practices
F.1.1 The company secretary should be an employee of the issuer and have day-to-day knowledge of the issuer's affairs.	✓	Ms. Kan Siu Yim, Katie, the company secretary of the Company (the "Company Secretary"), is an employee of the Company and she has day-to-day knowledge of the Company's affairs.
F.1.2 The board should approve the selection, appointment or dismissal of the company secretary.	✓	The Board is responsible for approving the selection, appointment or dismissal of the Company Secretary.
F.1.3 The company secretary should report to the board chairman and/or the chief executive.	✓	The Company Secretary reports to the Chief Financial Officer and the Chief Executive Officer on day-to-day duties and responsibilities and to the Deputy Chairman on governance matters.
F.1.4 All directors should have access to the advice and services of the company secretary to ensure that board procedures, and all applicable law, rules and regulations, are followed.	✓	All Directors have full access to the advice and services of the Company Secretary and legal and professional consultants of the Company, whenever necessary, to ensure compliance with all applicable law, rules and regulations, and corporate governance practices.

Note:

1. Mr. Lian Jie was appointed as an independent non-executive Director and a member of each of the Audit Committee and the Nomination Committee with effect from 1 February 2017.

DIRECTORS' AND AUDITOR'S ACKNOWLEDGEMENT

The Directors acknowledge their responsibility for preparing the accounts for the year under review.

The Board has conducted a review of the effectiveness of the risk management and internal control systems of the Group for the year under review.

The external auditor of the Company acknowledges its reporting responsibilities in the auditor's report on the financial statements for the year under review.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Experienced management which uphold Stella's core values

EXECUTIVE DIRECTORS

Mr. CHIANG Jeh-Chung, Jack, aged 66, is the Chairman of the Board, an executive Director of the Company and a member of the Executive Committee of the Board. Mr. Chiang has been with the Group since 1983 and is one of the founders of the Group. He is responsible for the Group's design, development, marketing and customer relationship. Mr. Chiang has over 34 years of experience in new product development and management in the footwear industry. He is also a director of certain subsidiaries of the Company which are engaged in design and marketing activities. He is the uncle of the Executive Director, Mr. Chi Lo-Jen. He is indirectly interested in the issued share capital of Cordwalner Bonaventure Inc., the controlling shareholder of the Company.

Mr. CHAO Ming-Cheng, Eric, aged 65, is the Deputy Chairman of the Board, an executive Director of the Company and a member of the Executive Committee of the Board. Mr. Chao has been with the Group since 1982 and is one of the founders of the Group. He is responsible for factory management and setting up new manufacturing facilities. Mr. Chao has over 35 years of experience in management in the footwear industry. He holds a Bachelor of Commerce degree from the Tunghai University, Taiwan. He is also a director of certain subsidiaries of the Company which are engaged in manufacturing business. He is indirectly interested in the issued share capital of Cordwalner Bonaventure Inc., the controlling shareholder of the Company.

Mr. CHEN Li-Ming, Lawrence, aged 56, is an executive Director of the Company, the Chief Executive Officer of the Group and the chairman of the Executive Committee of the Board. Mr. Chen has been with the Group since 1985. He is responsible for the Group's corporate management. He has over 32 years of experience in technology development and management in the footwear industry. He holds a Bachelor of Electrophysics degree from the National Chiao Tung University, Taiwan. He is also a director of certain subsidiaries of the Company which are engaged in design and marketing activities, manufacturing and retail business. He is a director of Cordwalner Bonaventure Inc., the controlling shareholder of the Company. He is also indirectly interested in the issued share capital of Cordwalner Bonaventure Inc.. He is the cousin of a member of the senior management of the Company, Mr. Yang Chen-Ning.

Mr. CHI Lo-Jen, aged 45, is an executive Director of the Company and a member of the Executive Committee of the Board. Mr. Chi joined the Group in 1995 and is the Chief Executive Officer of both of the Women's Footwear Business Division and the Retail Business Division of the Group. He is responsible for the supervision of the daily operations and business development of women's footwear and retail business. Mr. Chi is also responsible for product design and development. He has over 22 years of experience in the footwear industry. He is also a director of certain subsidiaries of the Company which are engaged in retail business. Mr. Chi is the nephew of the Chairman of the Board, Mr. Chiang Jeh-Chung, Jack. He is indirectly interested in the issued share capital of Cordwalner Bonaventure Inc., the controlling shareholder of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHEN Johnny, aged 57, is an independent non-executive Director of the Company, and the chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee of the Board. Mr. Chen is currently an Adjunct Associate Professor at the Hong Kong University of Science and Technology. Mr. Chen joined Zurich Insurance Group ("Zurich") in 2005 and served as the chief executive officer of Greater China and South East Asia Regions from 2005 to 2010. From 2010 to 2013, he became the chief executive officer of the general insurance business in Asia Pacific Region. In 2013, Mr. Chen was appointed as the chairman of the life and general insurance businesses in China until his departure in 2014. Prior to joining Zurich, Mr. Chen was an executive member of the Greater China Management Board and the Operating Committee of PricewaterhouseCoopers ("PwC"). He was also the managing partner of PwC's Beijing office during the same period. From July 2005 to January 2014, Mr. Chen was a non-executive director of New China Life Insurance Company Ltd. (Stock Code: 1336), a company listed on the Main Board of the Stock Exchange. Mr. Chen is currently an independent non-executive director of Viva China Holdings Limited (Stock Code: 8032), a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Chen is also currently an independent non-executive director of Uni-President China Holdings Ltd. (Stock Code: 220), China Minsheng Financial Holding Corporation Limited (stock code: 245) and Alibaba Pictures Group Limited (stock code: 1060) respectively, companies listed on the Main Board of the Stock Exchange. Mr. Chen received a master's degree in accounting from the University of Rhode Island and has been a U.S. qualified CPA since 1986. Mr. Chen has been appointed as an independent non-executive Director of the Company since February 2009.

Mr. BOLLIGER Peter, aged 72, is an independent non-executive Director of the Company, the chairman of the Corporate Governance Committee and a member of the Nomination Committee of the Board. Mr. Bolliger had extensive experience in retail business with renowned department stores. From 1990 to 1994, he was the managing director of Harrods, London, the director of House of Fraser Plc and the chairman of Kurt Geiger, London (which is one of the leading luxury footwear retailers in Europe). Prior to these appointments, he had served at shoes companies, such as the managing director of A & D Spitz (Pty) Ltd., South Africa (1982 to 1990) and the managing director of Bally Shoes, Scandinavian Division, Denmark. In 1994, he joined Clarks and became the chief executive in 2002 until his retirement in May 2010. He is currently an independent non-executive director and a member of the audit committee of GrandVision B.V., a well-known optical retail company in the world. In addition, he is the non-executive Chairman of Kurt Geiger, London. Mr. Bolliger has been appointed as independent non-executive Director of the Company since October 2010.

Mr. CHAN Fu Keung, William, *BBS*, aged 68, is an independent non-executive Director of the Company, and the chairman of the Remuneration Committee and a member of the Audit Committee, the Corporate Governance Committee and the Nomination Committee of the Board. Mr. Chan was a member of the Executive Directorate and the Human Resources Director of the MTR Corporation Limited (Stock Code: 66) (the "MTR Corporation"), a company listed on the Main Board of the Stock Exchange since 1996 and 1998 respectively until July 2012 when he retired from the MTR Corporation after 24 years of service. As Human Resources Director of the MTR Corporation, he was responsible for overseeing human resources management, succession planning, organisation development, operations and management training, administration and security management of the MTR Corporation. Prior to joining the MTR Corporation, Mr. Chan held senior management positions in the commercial, utility and public sectors in Hong Kong, including the Hong Kong Government, the Hong Kong Productivity Council, Hutchison Whampoa Limited and Hong Kong Telecommunications Limited. Mr. Chan is a fellow member of the Hong Kong Institute of Human Resource Management since 1985. He is a member of the School of Business Advisory Committee of Hong Kong Baptist University, a member of the Remuneration Committee of the West Kowloon Cultural District Authority and a member of the Committee on Professional Development of Teachers and Principals (COTAP). He is also a member of the Hospital Authority Board, the chairman of its Human Resources Committee, and the trustee of the Hospital Authority Provident Fund Scheme. In addition, he is also the chairman of the Hospital Governing Committee of the Tuen Mun Hospital. Mr. Chan has been appointed as an independent non-executive director of Analogue Holdings Ltd (AHL), which is principally engaged in electrical and mechanical engineering, since August 2015. Mr. Chan received a Bachelor of Social Science degree from the University of Hong Kong in 1971. Mr. Chan has been appointed as an independent non-executive Director of the Company since September 2012.

Mr. YUE Chao-Tang, Thomas, aged 62, is an independent non-executive Director of the Company, the chairman of the Audit Committee and a member of the Corporate Governance Committee, the Nomination Committee and the Remuneration Committee of the Board. Mr. Yue was a partner and director of the Global Advisory Council of Ernst & Young from 1998 to 2001, and became the deputy chairman and chairman of Ernst & Young from 2001 to 2004 and from 2004 to 2007 respectively. Currently he is the president of Tien-Yeh Accounting Firm. He has been in the accounting profession for over 37 years. Mr. Yue also holds various positions in the academic field. He is also an adjunct professor of the Accounting and Information Technology Research Institute of the National Chung Chen University, a visiting professor of both the Accounting Faculty of the National Chung Hsing University and the Accounting and Information Research Institute of the Asia University. From June 2008 to June 2014, Mr. Yue was an independent director of WPG Holdings Limited (Stock Code: 3702), the shares of which are listed on the Taiwan Stock Exchange. Mr. Yue is currently an independent director of Industrial Bank of Taiwan (Stock Code: 2897), which is registered on Taiwan's Emerging Stock Market (also known as GreTai Securities Market). Mr. Yue is also currently an independent director of Uni-President Enterprises Corp. (Stock Code: 1216), Johnson Health Tech. Co., Ltd. (Stock Code: 1736) and Feng Hsin Steel Co., Ltd. (Stock Code: 2015) respectively, companies listed on the Taiwan Stock Exchange. In addition, he is a director of Taiwan Corporate Governance Association. Mr. Yue received a master's degree and a bachelor's degree in accounting from the National Cheng-Chi University and the National Cheng-Kung University respectively. In addition, Mr. Yue received a master's degree in business administration from China Europe International Business School. Mr. Yue has been a certified public accountant of Taiwan since 1983. Mr. Yue has been appointed as an independent non-executive Director of the Company since January 2013.

Mr. LIAN Jie, aged 42, is an independent non-executive Director of the Company, a member of the Audit Committee and the Nomination Committee of the Board, Mr. Lian is currently the President of Perfect World Co., Ltd. (stock code: 2624), a leading Chinese entertainment company listed on the Shenzhen Stock Exchange principally engaged in the game, movie and TV drama businesses. From 2010 to 2016, Mr. Lian was the founding partner of Primavera Capital Group, which is a private equity firm focusing on the Chinese market. He currently serves as Senior Advisor to Primavera Capital Group. From 2009 to 2010, Mr. Lian served as the Managing Director in the Investment Banking Division of China International Capital Corporation ("CICC"), which was based in Hong Kong. Prior to joining CICC, Mr. Lian had been the Managing Director of the Investment Banking Division of Goldman Sachs in Hong Kong for more than eight years. From 2011 to 2016, Mr. Lian was an independent director of Bona Film Group Limited which was a company listed on the NASDAQ Stock Market and privatised in May 2016. Mr. Lian is currently an independent non-executive director of Bosideng International Holdings Limited (stock code: 3998), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and a non-executive director of China XLX Fertiliser Limited (stock code: 1866), a company listed on the Main Board of the Stock Exchange. Mr. Lian graduated with a MBA degree from the Tuck School of Management, Dartmouth College in Hanover, New Hampshire, United States. Mr. Lian has been appointed as an independent non-executive Director of the Company since February 2017.

SENIOR MANAGEMENT

Business Division

Mr. SMOWTON Dermot, aged 61, is the Chief Operating Officer of the Group. Mr. Smowton joined the Group in December 2015. He is responsible for the Group's overall operational management. Prior to joining the Group, he was employed by C & J Clark International and completed his 35-year career there as global sourcing director.

Mr. CHEN Tung-Jui, aged 55, is the General Manager of the Men's Footwear Business Division of the Group. Mr. Chen has been with the Group since 1985. He has over 32 years of experience in the footwear industry. He is also a director of certain subsidiaries of the Company which are engaged in manufacturing business.

Mr. CHU Chao-Min, aged 57, is the General Manager of the Overseas Footwear Business Division of the Group. Mr. Chu joined the Group in 1996 and he was assigned to Vietnam in 2002 to supervise the Group's production there. He is also responsible for overseeing the manufacturing plants in Indonesia which were acquired by the Group in early 2012. Prior to joining the Group, he served in various footwear companies such as 東立產業股份有限公司 (Tong Li Realty Ltd.). Mr. Chu has over 23 years of experience in the footwear industry. He holds a Bachelor of Commerce degree from the Feng Chia University, Taiwan. He is also a director of certain subsidiaries of the Company which are engaged in manufacturing business.

Mr. YANG Chen-Ning, aged 52, is the General Manager of Fashion Footwear Business Division of the Group. Mr. Yang joined the Group in 1986. He has over 31 years of experience in the footwear industry. He is also a director of certain subsidiaries of the Company which are engaged in manufacturing business. Mr. Yang is the cousin of Mr. Chen Li-Ming, Lawrence, an executive Director.

Mr. CHANG Chen-Ou, aged 60, is the General Manager of Sports Fashion Footwear Business Division of the Group. Mr. Chang joined the Group in 1994. Mr. Chang has over 30 years of experience in the footwear industry. He holds a Certificate of International Trade from the Tansui Institute of Industrial and Business Administration (currently known as the Aletheia University), Taiwan. He is also a director of certain subsidiaries of the Company which are engaged in manufacturing business.

Corporate Division

Mr. LEE Kwok Ming, aged 59, is the Chief Financial Officer of the Group. He joined the Group in June 2006 and is responsible for the overall financial function of the Group. Prior to joining the Group, Mr. Lee assumed the position of chief financial officer in a number of listed companies in Hong Kong. Mr. Lee holds a Higher Diploma in Accountancy from the Hong Kong Polytechnic and a Master of Science degree in Business Administration from the University of Bath, United Kingdom. Mr. Lee is a fellow member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Chartered Institute of Management Accountants. He is also a director of certain subsidiaries of the Company which are engaged in design and marketing activities and retail business.

Mr. CHIU Xian Hsiung, Sean, aged 48, is the Operation Director of the Group. Mr. Chiu joined the Group in 2014 and is responsible for the Group's overall operational sustainability improvements. Prior to joining the Group, he worked with Pou Chen Group and also possessed mentoring experience in various footwear and garment companies. He has expertise in industrial engineering improvement, lean system, rationalisation and e-business. He holds a Doctor of Science degree from the National Taiwan University, Taiwan.

Endeavouring to maintain effective communication with shareholders

The board (the "Board") of directors (the "Directors") of Stella International Holdings Limited (the "Company") is pleased to present the annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of the Group are development, manufacturing, sales and retailing of footwear products. Particulars of the principal activities of the Company's major subsidiaries are set out in note 38 to the consolidated financial statements of the Group for the year ended 31 December 2016.

BUSINESS REVIEW

For details of business review in relation to the development, performance or position of the Company's business, please refer to the sections headed "Management Discussion and Analysis" and "Environmental, Social and Governance Report" of this annual report.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 107.

The Board recommended the payment of a final dividend of HK30 cents per ordinary share to shareholders of the Company (the "Shareholders") for the year ended 31 December 2016. In addition to the payment of a final dividend, the Board recommended the payment of a special dividend of HK10 cents per ordinary share to the Shareholders for the year ended 31 December 2016 in recognition of the continual support of the Shareholders. The proposed final dividend and the special dividend, amounting to approximately US$30.7 million and US$10.2 million respectively, will be paid to Shareholders whose names appear on the register of members of the Company on 25 May 2017, if the proposals are approved by the Shareholders at the forthcoming annual general meeting of the Company (the "AGM") to be held on 19 May 2017. It is expected that the final dividend and the special dividend, if approved, will be paid on or about 28 June 2017.

In order to qualify for the proposed final dividend and the special dividend to be approved at the AGM, all share transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 25 May 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 May 2017 to 19 May 2017 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for attending and voting at the forthcoming AGM of the Company, all share transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 15 May 2017.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2016 are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year ended 31 December 2016 are set out in note 29 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the consolidated results of the Group for the last five financial years and its consolidated assets and liabilities as at the end of the last five financial years is set out on page 178.

BANK BORROWINGS

Details of bank borrowings for the year ended 31 December 2016 are set out in note 28 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Company during the year ended 31 December 2016 are set out in the consolidated statement of changes in equity of the Group and note 36 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to Shareholders as at 31 December 2016 were US$303.9 million (2015: US$293.7 million).

DIRECTORS

The Directors of the Company during the year under review were:

Executive Directors:
Mr. Chiang Jeh-Chung, Jack
Mr. Chao Ming-Cheng, Eric
Mr. Chen Li-Ming, Lawrence
Mr. Chi Lo-Jen

Independent Non-executive Directors:
Mr. Chen Johnny
Mr. Bolliger Peter
Mr. Chan Fu Keung, William, *BBS*
Mr. Yue Chao-Tang, Thomas
Mr. Lian Jie (appointed with effect from 1 February 2017)

In accordance with article 86(3) of the Company's articles of association, Mr. Lian Jie will hold office until the forthcoming AGM and, being eligible, after themselves for re-election.

In accordance with article 87(1) of the Company's articles of association, Mr. Chao Ming-Cheng, Eric, Mr. Chen Li-Ming, Lawrence and Mr. Bolliger Peter will retire by rotation at the forthcoming AGM of the Company and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming AGM of the Company has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

PERMITTED INDEMNITY PROVISION

The service agreements entered into by the Company with each of the executive Directors, which are currently in force and were in force during the year ended 31 December 2016, contain indemnity provisions which are permitted indemnity provisions under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) subject to the limitations specified in sections 468 and 469 thereof, for the benefit of the executive Directors. Pursuant to such provisions, the Company shall indemnify any executive Director against any liability, loss suffered and expenses incurred by the executive Director in connection with any legal proceedings in which he is involved by reason of being a Director, and in which the judgment is given in his favour or in which he is acquitted. The Company has also taken out and maintained appropriate insurance cover to indemnify the Directors for liabilities that may arise out of corporate activities. The insurance coverage is reviewed on an annual basis. During the year ended 31 December 2016, no claims were made against the Directors.

CONTRACTS OF SIGNIFICANCE AND RELATED PARTY TRANSACTIONS

None of the Directors had, at any time during or at the end of the year under review, whether directly or indirectly, a material interest in any contract of significance in relation to the Group's business to which the Company or any of its subsidiary was a party.

No contract of significance had been entered into between the Company or any of its subsidiaries, and the controlling shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules")) of the Company or any of its subsidiaries.

Save for the transaction as referred to under paragraph (II) of Note 35 to the consolidated financial statements which constituted connected transaction under Chapter 14A of the Listing Rules, none of the related party transactions disclosed in note 35 to the consolidated financial statements is a connected transaction or continuing connected transaction of the Company as defined in Chapter 14A of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group (other than contracts of service with any Director or any person engaged in full time employment of the Group) were entered into or existed during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" and "Long Term Incentive Scheme" below, at no time during the year under review was the Company or any of its subsidiaries a party to any arrangement 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received the annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors. The Company considers all of the independent non-executive Directors of the Company independent.

DISCLOSURE OF INTERESTS

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2016, 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 or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (Cap.571 of the Laws of Hong Kong), which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or was required to be recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to the Listing Rules were as follows:

Aggregate long positions in shares and underlying shares of the Company:

		Number of Shares				
Director	Capacity/ Nature of Interest	Personal Interest	Corporate Interest	Number of Underlying Shares	Total	Approximate Percentage of Shareholding
Bolliger Peter	Beneficial owner	150,000	–	–	150,000	0.02%
Chao Ming-Cheng, Eric	Beneficial owner and interest of controlled corporation	238,500	26,205,289 *(Note 1)*	–	26,443,789	3.33%
Chen Li-Ming, Lawrence	Beneficial owner and interest of controlled corporation	238,000	21,921,870 *(Note 2)*	–	22,159,870	2.79%
Chi Lo-Jen	Beneficial owner	1,783,500	–	–	1,783,500	0.22%
Chiang Jeh-Chung, Jack	Beneficial owner and interest of controlled corporation	331,500	28,551,674 *(Note 3)*	–	28,883,174	3.64%

Notes:

1. These interests were held by a company, the entire issued share capital of which was held by Mr. Chao Ming-Cheng, Eric. Mr. Chao Ming-Cheng, Eric was deemed to be interested in the shares of the Company in which that company was interested by virtue of the SFO.

2. These interests were held by a company, the entire issued share capital of which was held by Mr. Chen Li-Ming, Lawrence. Mr. Chen Li-Ming, Lawrence was deemed to be interested in the shares of the Company in which that company was interested by virtue of the SFO.

3. These interests were held by a company, the entire issued share capital of which was held by Mr. Chiang Jeh-Chung, Jack. Mr. Chiang Jeh-Chung, Jack was deemed to be interested in the shares of the Company in which that company was interested by virtue of the SFO.

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executive of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or its associated corporation which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or was required to be recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2016, the interests and short positions of the then shareholders of the Company (other than a Director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:–

Long position in the shares of the Company:

Name	Capacity/ Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Cordwalner Bonaventure Inc.	Beneficial owner	246,412,214	31.02%
The Capital Group Companies, Inc.	Interest of corporation controlled by the substantial shareholder	71,483,000	8.99%
Capital Research and Management Company	Investment manager	47,261,000	5.95%

Save as disclosed above, as at 31 December 2016, no person (other than a Director or chief executive of the Company whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above), had an interest or short position in the shares or underlying shares of the Company that were required to be recorded in the register required to be kept by the Company under section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Division 2 and 3 of Part XV of the SFO.

CONNECTED TRANSACTION

On 18 October 2016, the Group entered into the Investment Agreement with Max Group, Mr. Chiang Chih-Chung and Mr. Li Wei. Details of the Investment Agreement are set forth as follows:

(a) Restructuring

Under the Investment Agreement, the Restructuring of the Group's PRC retail business shall take place pursuant to which Stella Fashion shall procure, among others, that all of the Group's PRC retail business shall be injected into the SPV and/or its wholly-owned subsidiary in Hong Kong within six months from the date of the Investment Agreement.

(b) Stella Call Option

Option granted

Stella Fashion has granted to Max Group the Stella Call Option, pursuant to which Max Group (or its designated nominee) may acquire from Stella Fashion all (but not part of) 60% of the issued share capital of the SPV at any time during the Stella Call Option Exercise Period at the Stella Call Option Consideration.

Exercise period

The Stella Call Option may only be exercised once by Max Group during the Stella Call Option Exercise Period by giving Stella Fashion the relevant exercise notice. The Stella Call Option shall lapse upon expiry of the Stella Call Option Exercise Period.

Consideration

The Stella Call Option Consideration shall be payable by Max Group (or its designated nominee) in cash upon completion of the transfer of the Stella Call Option Shares pursuant to the exercise of the Stella Call Option. The Stella Call Option Consideration has been determined after arm's length negotiations among the parties and shall be the lowest of the following:

(i) 60% of the consolidated net asset value of the SPV as shown on its unaudited consolidated financial statement for the immediate second preceding calendar month (if the exercise notice is served by Max Group on or before the 15th day of a calendar month) or that of the immediate preceding calendar month (if the exercise notice is served by Max Group after the 15th day of a calendar month); or

(ii) US$50,000,000.

No premium or other consideration is payable by Max Group to the Group for the grant of the Stella Call Option.

(c) Max Warrant

Warrant accepted

Max Group has granted to Stella Fashion the Max Warrant, pursuant to which Stella Fashion (or its designated nominee) may subscribe for up to 20% of the enlarged issued share capital of Max Group at any time during the Max Warrant Exercise Period at the Max Warrant Subscription Price subject to satisfaction of certain conditions precedent.

Consideration and exercise period

The Max Warrant may only be exercised by Stella Fashion once by giving Max Group the relevant exercise notice at any time during the Max Warrant Exercise Period as set out below, and at the Max Warrant Subscription Price payable by Stella Fashion (or its designated nominee) to Max Group in cash as determined by the formula below:

$$SP = V \times [SS\%/(1 - SS\%)]$$

Where:

SP means the Max Warrant Subscription Price, in RMB, payable by Stella Fashion (or its designated nominee) upon completion of the subscription of the Max Warrant Shares pursuant to the exercise of the Max Warrant

V means the applicable basis of the Max Warrant Subscription Price as set out below (and, if needed, the RMB equivalent of the US$ amount to be determined based on the mid-price of the telegraphic transfer exchange rate for exchange of US$ into RMB (offshore) as offered by Bank of China (Hong Kong) Limited at 4:00 p.m. on the business day immediately prior to the completion date):

Max Warrant Exercise Period	Basis of the Max Warrant Subscription Price
Within 180 days of the date of audited financial statement of Max Group for the year ending 28 February 2019	Six times of the audited net profit after tax of Max Group for the year ending 28 February 2019
Within 180 days of the date of audited financial statement of Max Group for the year ending 29 February 2020	Six times of the audited net profit after tax of Max Group for the year ending 29 February 2020
Within 180 days of the date of audited financial statement of Max Group for the year ending 28 February 2021	Six times of the audited net profit after tax of Max Group for the year ending 28 February 2021

SS% means the percentage of the Max Warrant Shares to the enlarged issued share capital of Max Group to be subscribed for pursuant of the exercise of the Max Warrant

The Max Warrant Subscription Price has been determined after arm's length negotiations among the parties. No premium or other consideration is payable by the Group to Max Group for the grant of the Max Warrant.

(d) Max Put Option

Option accepted and exercise period

Max Group has granted Stella Fashion the Max Put Option pursuant to which, if the listing of the shares of Max Group or the Max Listco fails to take place within three years after the completion of the subscription of the Max Warrant Shares pursuant to the exercise of the Max Warrant, Stella Fashion may require Max Group to repurchase (failing which the Covenantors shall purchase) all (but not part of) of the Max Put Option Shares at the Max Put Option Consideration.

Consideration

The Max Put Option Consideration shall be payable by Max Group (or, as the case may be, the Covenantors) in cash upon completion of the transfer of the Max Put Option Shares pursuant to the exercise of the Max Put Option. The Max Put Option Consideration has been determined after arm's length negotiations among the parties and shall be the aggregate of (i) the Max Warrant Subscription Price paid to Max Group; (ii) an interest accrued on the Max Warrant Subscription Price at the interest rate of 3% per annum, less (iii) any dividends paid by Max Group, or (as the case maybe) the Max Listco to Stella Fashion (or its designated nominee) since the date of completion of exercise of the Max Warrant, provided that if the dividends so paid exceeds the amount of interest as referred to in (ii) above, the Max Put Option Consideration would be the amount of the Max Warrant Subscription Price.

Exercise period

The Max Put Option may only be exercised once by Stella Fashion during the Max Put Option Exercise Period by giving Max Group the relevant exercise notice. In the event that Stella Fashion exercises the Max Warrant after the listing of the shares of any member of the SPV Group, the Max Put Option shall lapse upon completion of the exercise of the Max Warrant. The Max Put Option shall also lapse (a) if the relevant condition precedent is not satisfied within the Max Put Option Exercise Period, (b) upon the lapse of the Stella Call Option or the Max Warrant in accordance with the terms of the Investment Agreement or (c) the listing of shares of Max Group or the Max Listco on any stock exchange.

(e) Reasons for the Investment Agreement

Max Group is principally engaged in design, development and manufacture of premium quality designer ladies footwear. It also operates online retail stores in the PRC for brand names including Ash. Its wholly-owned subsidiary in the PRC has been appointed by the Group as the management company for the daily management and monitoring of the retail business of Stella Fashion Inc. in the PRC, including the daily operations and management of retail stores and points of sales and distribution channels, and marketing strategies of the Group's own labels and licensed brands, since July 2015.

The Group has launched its retail business since 2006 in view of diversifying its business and tapping growing demand for affordable luxury footwear in the PRC and across the region. Through the Group's persistent efforts in building its self-grown brands, they have now become truly premium global brands which are accessible by consumers throughout Europe, Southeast Asia, the Middle East, and in particular, the PRC where the brands have attracted a strong following among the upwardly mobile consumers. In line with the Group's strategy, the Directors are of the view that focus should be put on growing the Group's core competencies such as craftsmanship, innovation, branding and marketing, leaving the operation of retail business to retail operators with local market experience and expertise. The Directors consider that granting of the Stella Call Option to Max Group serves as an incentive for Max Group for its commitment in the promotion and continuing development of the Group's retail business in the PRC, and will help the Group in further improving its retail business in the PRC. The Group shall continue increasing the global visibility of the brands to other parts of the world in order to increase its brand equity in the PRC.

Compliance with the Reporting and Announcement Requirements

Given that Max Group is indirectly owned as to approximately 64.75% by Mr. Chiang Chih-Chung, who is the brother of Mr. Chiang Jeh-Chung, Jack, an executive Director and chairman of the Board, each of Max Group and Mr. Chiang Chih-Chung is a connected person of the Company, and the transactions contemplated under the Investment Agreement constituted connected transactions of the Company.

As the Group does not have discretion in the exercise the Stella Call Option, the grant of the Stella Call Option by the Group was classified as if it were exercised. As all percentage ratios (other than the profits ratio) in respect of the exercise of the Stella Call Option are less than 5%, the grant of the Stella Call Option by the Group under the Investment Agreement and the transactions contemplated thereby were subject to the reporting and announcement requirements but were exempted from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Group has discretion in the exercise of the Max Warrant and the Max Put Option, and given that no premium or other consideration is payable by the Group in acquiring the Max Warrant and the Max Put Option, the acceptance of the Max Warrant and the Max Put Option under the Investment Agreement and the transactions contemplated thereby were fully exempt from the notification, publication and/or shareholders' approval requirements under Chapter 14 of the Listing Rules, and the shareholders' approval, annual review and/or the disclosure requirements under Chapter 14A of the Listing Rules. The Company will comply with the applicable requirements under Chapters 14 and 14A of the Listing Rules as and when the Group transfers, exercises (or decides not to exercise) and/or terminate the Max Warrant and the Max Put Option.

The Company confirmed that it has complied with the disclosure requirements as applicable to the above connected transaction under chapter 14A of the Listing Rules.

DEFINITIONS

Under this section, the following expressions shall, unless the context requires otherwise, have the following meanings:

"Business Day(s)"	a day on which banks in Hong Kong and the PRC are generally open for business to the public and which is not a Saturday, Sunday, public holiday or a day on which typhoon no. 8 or above or black rainstorm warning is hoisted between 9:00 a.m. and 5:00 p.m.
"BVI"	the British Virgin Islands
"Covenantors"	Mr. Chiang Chih-Chung and Mr. Li Wei
"Investment Agreement"	the investment agreement dated 18 October 2016 entered into between Stella Fashion, Max Group and the Covenantors
"Max Group"	Max Group Holdings Limited, a company incorporated under the laws of the British Virgin Islands with limited liability, the issued share capital of which is indirectly owned as to approximately 64.75% by Mr. Chiang Chih-Chung
"Max Listco"	Max Group or its holding company, the shares of which are intended to be applied for listing on any stock exchange

"Max Put Option"	the put option to be granted by Max Group to Stella Fashion for the repurchase by Max Group of (failing which the Covenantors shall purchase) all (but not part of) of the Max Put Option Shares under the Investment Agreement
"Max Put Option Consideration"	the price payable by Max Group (or the Covenantors) to Stella Fashion for the repurchase/purchase of the Max Option Shares pursuant to the exercise of the Max Put Option
"Max Put Option Exercise Period"	the period of six months commencing from the third anniversary date after the date of completion of exercise of the Max Warrant, provided that, if listing of Max Group or the Max Listco on any stock exchange shall take place before the expiry of this six-month period, the Max Put Option Exercise Period will expire on the date of such listing
"Max Put Option Shares"	the Max Warrant Shares so subscribed for pursuant to the exercise of the Max Warrant or, as the case may be, the shares of the Max Listco so exchanged for in accordance with the terms and conditions of the Investment Agreement
"Max Warrant"	the warrant granted by Max Group to Stella Fashion for the subscription of the Max Warrant Shares by Stella Fashion or its designated nominee under the Investment Agreement
"Max Warrant Exercise Period"	the period during which Stella Fashion may notify Max Group of its intention to exercise the Max Warrant
"Max Warrant Shares"	such number of ordinary shares in the issued share capital of Max Group, representing up to 20% of the enlarged issued share capital of Max Group
"Max Warrant Subscription Price"	the price payable by Stella Fashion (or its designated nominee) to Max Group for the subscription of the Max Warrant Shares pursuant to the exercise of the Max Warrant
"Restructuring"	the restructuring of the Group's PRC retail business in accordance with the terms of the Investment Agreement
"SPV"	a company to be incorporated in the BVI under the laws of the BVI pursuant to the Investment Agreement
"SPV Group"	collectively, the SPV and its subsidiaries
"Stella Call Option"	the call option granted by Stella Fashion to Max Group for the acquisition of all (but not part of) of the Stella Call Option Shares by Max Group or its designated nominee under the Investment Agreement

"Stella Call Option Consideration"	the price payable by Max Group (or its designated nominee) to Stella Fashion for the sale and purchase of the Stella Call Option Shares pursuant to the exercise of the Stella Call Option
"Stella Call Option Exercise Period"	the period of 12 months commencing from the date on which Stella Fashion notifies Max Group of the completion of the Restructuring in accordance with the terms and conditions of the Investment Agreement
"Stella Call Option Shares"	such number of ordinary shares in the capital of the SPV to be in issue and registered in the name of Stella Fashion representing 60% of the entire issued share capital of the SPV
"Stella Fashion"	Stella Fashion Group Limited, a company incorporated under the laws of the BVI with limited liability and a wholly-owned subsidiary of the Company

REMUNERATION POLICY

The Group cultivates a caring culture among the employees and believes that human resources are significant assets to the Group's development and expansion. The Group seeks to build the management team internally through effective training and development programs. The Group adopts a remuneration system based on employees' individual performance, skill and knowledge, together with reference to the Group's operating results and comparable market benchmarks.

The emoluments of the Directors are first reviewed by the remuneration committee of the Board and then approved by the Board, having regard to the Director's skill, knowledge, involvement in the Company's affairs and the performance of each Director, together with reference to the profitability of the Group, remuneration benchmarks in the industry, and prevailing market conditions.

LONG TERM INCENTIVE SCHEME

A long term incentive scheme (the "Scheme") was conditionally approved by a written resolution of the Shareholders passed on 15 June 2007 and was adopted by a resolution of the Board on 15 June 2007 and as amended by a resolution of the duly authorised committee of the Board on 18 June 2007 and further amended by a resolution of the Shareholders passed on 6 May 2011. The terms of the Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules, where appropriate.

The purpose of the Scheme is to attract and retain the best available personnel, to provide additional incentive to employees, directors, shareholders of any member of the Group or any holder of any securities issued by any member of the Group, and to reward any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group who are potential contributors to the success, development and/or growth of the Group.

The Board may, at its discretion and on such terms as it may think fit, grant to an employee, a director, any shareholder of any member of the Group or any holder of any securities issued by any member of the Group and any adviser (professional or otherwise) or consultant to any area of business development of any member of the Group an award ("Award"), either in the form of or a combination of (1) an option ("Option(s)") to subscribe for shares of the Company ("Shares"), (2) an award of Shares ("Restricted Share Award(s)") held in the name of or for the benefit of a grantee in accordance with the restricted share award agreement to be entered into by such grantee and the Company or (3) a grant of a conditional right to acquire Shares ("Restricted Unit Award(s)") as the Board may determine in accordance with the terms of the Scheme.

The basis of eligibility of any participant to the grant of any Award shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the success, development and/or growth of the Group.

The Scheme shall be valid and effective for a period of 10 years commencing from 6 July 2007, after which period no further Awards may be offered or granted. The Board shall, subject to the rules of the Scheme and the Listing Rules, have the right to determine, among others, the exercise price of an Option, the minimum period for which the Award must be held before its vesting, performance, operating and financial targets and other criteria to be satisfied before the vesting of an Award and other terms and conditions of an Award, provided that, in respect of an Award of Option, the exercise price of an Option shall be a price determined by the Board at its absolute discretion but shall not be less than the highest of (i) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer; (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of the offer; or (iii) the nominal value of the Shares on the date of offer.

Subject to the Listing Rules, the overall limit on the number of Shares subject to Awards from time to time under the Scheme and any other schemes must not, in aggregate, exceed 30% of the Shares in issue from time to time (i.e. 238,313,850 Shares as at the date of this annual report) (the "Overriding Limit").

The total number of Shares available for issue or transfer in satisfaction of all Awards which may be granted under the Scheme and any other schemes of the Company must not, in aggregate, exceed 78,000,000 Shares, representing 10% of the Shares in issue as at the effective date of the Scheme and 9.8% of the Shares in issue as at the date of this annual report, subject to an annual cap, renewable by Shareholders in general meeting, of no more than 5% of the total issued share capital of the Company as at the beginning of each such financial year that may be issued by the Company to satisfy Restricted Share Awards or Restricted Unit Awards (the "Mandate Limit"). The Mandate Limit is also subject to the Overriding Limit and the refreshing of the Mandate Limit (as described below) and granting of Awards beyond the Mandate Limit (as described below).

Subject to the Overriding Limit and granting of Awards beyond the Mandate Limit (as described below), the Company may refresh the Mandate Limit at any time subject to Shareholders' approval by ordinary resolution at a general meeting, which must not exceed 10% of the Shares in issue as at the date of the aforesaid Shareholders' approval or such other limits imposed by the Stock Exchange.

Subject to the Overriding Limit, the Company may also seek separate Shareholders' approval by ordinary resolution at a general meeting for granting Awards beyond the Mandate Limit provided that the Awards in excess of the Mandate Limit are granted only to participants specifically identified by the Company before such approval is sought.

The total number of Shares issued and to be issued upon exercise of Options or vesting of Awards granted and to be granted to each participant or grantee (including exercised, cancelled and outstanding Options, and vested and outstanding Awards) in any 12-month period shall not exceed 1% of the Shares in issue at the offer date of the Awards. Any further grant of Awards in excess of the above limit must be subject to Shareholders' approval by ordinary resolution at a general meeting with such participant or grantee and his, her or its associates abstaining from voting. The Board will determine the minimum period, if any, for which an Award must be held before it vests and any other conditions in relation to dealing with Shares on vesting. Where any offer proposed to be made to a substantial Shareholder or an independent non-executive Director of the Company or any of his associates would result in the total number of Shares issued or to be issued to satisfy Awards already granted or to be granted to such person in any 12-month period up to and including the date of offer: (i) representing in aggregate over 0.1% of the Shares in issue at the date of offer; and (ii) having an aggregate value, based on the closing price of the Shares at the date of offer, in excess of HK$5 million, then such offer and any acceptance thereof must be subject to approval of the Shareholders in general meeting taken on a poll.

During the year under review, no Options were granted, exercised or cancelled under the Scheme and there were no outstanding Options under the Scheme as at 31 December 2016.

Pursuant to the terms of the Scheme, the Company has entered into an engagement agreement (the "Engagement Agreement") and a deed of settlement (the "Deed") dated 2 June 2008 and 27 August 2008 respectively with a trustee (the "Trustee") for the administration by the Trustee of the awards of Restricted Unit Awards under the Scheme.

On 19 February 2009, Restricted Unit Awards for awards of a total of 2,445,500 Shares were granted to 85 eligible participants, six of whom were Directors at the relevant time and the remaining 79 were employees.

On 19 March 2010, Restricted Unit Awards for awards of a total of 1,428,000 Shares were granted to 125 eligible participants, six of whom were Directors at the relevant time and the remaining 119 were employees.

On 15 July 2011, Restricted Unit Awards for awards of a total of 27,500 Shares were granted to one eligible employee.

On 5 July 2013, the Company cancelled the unvested Restricted Unit Awards for awards of a total of 22,500 Shares which were granted to an employee on 15 July 2011 and such awards were replaced by granting another cash bonus award to that employee on the terms and conditions of a termination agreement entered into between the Company and that employee on 5 July 2013. Subsequent to the cancellation of the unvested Restricted Unit Awards as mentioned above, the Company terminated the Engagement Agreement and the Deed with the Trustee, both with effect from 15 July 2013.

SHARE AWARD PLAN

On 16 March 2017, the Company adopted a share award plan (the "Plan") pursuant to which shares of the Company (each a "Share") may be awarded to selected participants, including, among others, any employee of, non-executive director of, supplier of goods or services to, customer of, person or entity providing design, research, development or other technological support to, shareholder of, holder of any security issued by, and adviser or consultant in respect of any area of business or business development of any member of the Group or any entity in which any member of the Group holds any equity interest, and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group (collectively, the "Eligible Participants"). The Plan became effective on 16 March 2017 and, unless otherwise terminated or amended, shall remain in force for 10 years from that date.

A trustee (the "Trustee") shall from time to time be appointed by the Company for the purpose of implementation of the Plan pursuant to and in accordance with the terms of the trust deed entered into between the Company as settler and the Trustee as trustee. In order to satisfy any award of Shares to be granted under the Plan from time to time, the Trustee shall maintain a pool of Shares (the "Shares Pool") which shall comprise the following: (a) such Shares as may be purchased by the Trustee on the Stock Exchange or off the market by utilising the funds allocated by the Board out of the Company's resources; (b) such Shares as may be subscribed for by the Trustee by utilising the funds allocated by the Board out of the Company's resources, subject to the Company having obtained the requisite Shareholders' approval for the allotment and issue of new Shares, the grant of listing of and permission to deal in such Shares by the Stock Exchange, and compliance with the applicable requirements under the Listing Rules; (c) such Shares as may be (i) transferred to the Trustee from any person (other than the Group) by way of gift, or (ii) purchased by the Trustee on the Stock Exchange or off the market by utilising the funds received by the Trustee from any person (other than the Group) by way of gift; and (d) such Shares which remain unvested and revert to the Trustee due to the lapse of any award of Shares under the Plan. In any given financial year of the Company, the maximum number of Shares to be subscribed for and/or purchased by the Trustee by utilising the funds to be allocated by the Board out of the Company's resources for the purpose of the Plan shall not exceed 2.5% of the total number of issued Shares as at the beginning of such financial year. The Board shall not instruct the Trustee to subscribe for and/or purchase any Shares for the purpose of the Plan when such purchase and/or subscription will result in such threshold being exceeded.

The Board will make award of Shares only to the extent that there are unallocated Shares available in the Shares Pool. The Board shall notify the Trustee in writing upon the making of an award under the Plan by giving the Trustee an award notice. The Trustee shall then set aside such number of Shares awarded from the Shares Pool and hold the same on trust pending the vesting of the same to the Eligible Participant to whom Shares have been awarded in accordance with the Plan (the "Selected Participant"). The Board may from time to time, at its discretion, determine (i) the earliest date (the "Vesting Date") on which the legal and beneficial ownership of any awarded Shares are to be transferred to and vested in any Selected Participant, and (ii) any condition(s) or performance target(s) to be attained by the relevant Selected Participant subject to and upon which the awarded Shares held by the Trustee on trust referable to a Selected Participant shall vest in that Selected Participant.

No award of shares had been made under the Plan as at the latest practicable date for the purpose of ascertaining information contained in this annual report.

For further details of the Plan, please refer to the announcement of the Company concerning adoption of the Plan dated 16 March 2017.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions amounted to approximately US$135,000.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue attributable to the Group's largest customer and five largest customers accounted for approximately 21.1% and 62.5% of the Group's total revenue for the year ended 31 December 2016 respectively.

The aggregate purchase attributable to the Group's five largest suppliers accounted for less than 30% of the Group's total purchases for the year ended 31 December 2016.

None of the Directors or any of their close associates or any shareholder (which, to the best knowledge of the Directors, owned more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules as at the latest practicable date prior to the issue of this annual report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year.

AUDITOR

A resolution will be proposed to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company for the year ending 31 December 2017.

On behalf of the Board

Chiang Jeh-Chung, Jack
Chairman

16 March 2017

Deloitte. 德勤

TO THE SHAREHOLDERS OF STELLA INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Stella International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 107 to 177, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Estimated impairment assessment on trade receivables	
We identified the impairment assessment on trade receivables as a key audit matter due to the use of judgement and estimates by management on assessing the recoverability of the trade receivables and the adequacy of the impairment allowance. As disclosed in note 20 to the consolidated financial statements, the Group's trade receivables as at 31 December 2016 amounted to US$237,091,000 (net of allowance for doubtful debts of US$487,000). In determining the impairment allowance for trade receivables, the recoverability of the trade receivables is assessed by management taking into account the debtor's payment history including default or delay in payments, settlement records, subsequent settlements and ageing analysis of the trade receivables.	Our procedures in relation to assessing the appropriateness of management's impairment assessment on trade receivables included: • Understanding the Group's provision policy and the management's processes in assessing recoverability of each individual trade debt as well as determining the amount of impairment allowance for irrecoverable amounts; • Understanding the Group's key control on determination of credit limits, credit approval for customers and other monitoring procedures for recovering overdue debts; • Testing the ageing analysis of the trade receivables, on a sample basis, to the source documents; • Discussing with the management and evaluating management's basis for trade receivables which have past due but not impaired; and • Assessing the reasonableness of impairment allowance for trade receivables with reference to the debtor's payment history including default or delay in payments, settlement records, subsequent settlements and ageing analysis of the trade receivables.

Key audit matters	How our audit addressed the key audit matters
Allowance for inventories	
We identified the allowance of inventories as a key audit matter due to the use of judgement and estimates by management in identifying aged or obsolete, slow-moving, or out-of-season inventories, and determining the net realisable value ("NRV") which are based on the current market condition, marketing and promotion plan, historical sales record, ageing analysis and subsequent selling price of inventories. NRV represents the estimated selling price for inventories less all estimated costs necessary to make the sale. The Group carried out inventory review at the end of the reporting period and made the necessary allowance on obsolete and slow-moving, or out-of-season items so as to write off or write down inventories to their NRVs. As disclosed in note 19 to the consolidated financial statements, the Group's inventories as at 31 December 2016 amounted to US$210,412,000.	Our procedures in relation to management's estimation of allowance for inventories included: • Understanding the key controls of the Group on identifying aged or obsolete, slow-moving or out-of-season inventories that are no longer suitable for use in production nor saleable in the market; • Understanding the Group's inventory provision policy and the management's processes in making allowance for inventories; and evaluating the historical accuracy of the allowance estimation by management; • Testing the ageing analysis of inventories,on a sample basis, to the source documents; • Discussing with management and assessing the basis for determining the NRV and evaluating the current market condition, marketing and promotion plan, historical sales record, ageing analysis and subsequent selling price of inventories; and • Assessing the sufficiency and appropriateness of allowance for inventories made by management where the estimated NRV is lower than the cost with reference to historical sales records, ageing analysis, slow-moving or out-of-season inventories, subsequent selling price and subsequent usage of the inventories.

Key audit matters	How our audit addressed the key audit matters
Tax provision	
We identified the tax provision as a key audit matter due to the use of judgement and estimates by management on accounting for income taxes. In light of the number of jurisdictions in which the Group operates, judgement is required by management in identifying tax exposures and application of transfer pricing rules. As disclosed in note 10 to the consolidated financial statements, as at 31 December 2016, the Group has recorded income tax expense of US$7,044,000 and tax liabilities of US$51,884,000.	Our procedures in relation to taxation provision included: • Understanding the management process in identifying tax exposures in different jurisdictions in which the group operates and in estimating tax provision and determining the pricing policy in each jurisdiction based on function of the operation; • Discussing with management and assessing the basis of the management's estimation of tax provision identified and evaluating the historical accuracy of the provision estimated by the management; and • Engaging our internal tax experts to assess the sufficiency of tax provision by considering relevant tax rules in different jurisdictions, relevant transfer pricing reports, historical tax assessments, tax arrangement with local tax authorities and correspondence with local tax authorities.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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 HKFRSs issued by the HKICPA 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKASs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lau Ngai Kee, Ricky.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

16 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2016

	Notes	2016 US$'000	2015 US$'000
Revenue	7	1,550,864	1,769,852
Cost of sales		(1,260,320)	(1,398,222)
Gross profit		290,544	371,630
Other income	8	19,352	17,670
Other gains and losses	9	18,760	(2,319)
Distribution and selling expenses		(92,614)	(99,863)
Administrative expenses		(86,618)	(98,194)
Research and development costs		(62,048)	(59,888)
Share of result of a joint venture		1,370	90
Share of results of associates		43	247
Finance costs		(531)	(628)
Profit before tax		88,258	128,745
Income tax expense	10	(7,044)	(8,594)
Profit for the year	11	81,214	120,151
OTHER COMPREHENSIVE (EXPENSE) INCOME			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operation		(1,166)	(961)
Share of exchange differences of associates and a joint venture		481	332
Other comprehensive expense for the year, net of income tax		(685)	(629)
Total comprehensive income for the year		80,529	119,522
Profit (loss) for the year attributable to:			
Owners of the Company		81,577	121,047
Non-controlling interests		(363)	(896)
		81,214	120,151
Total comprehensive income (expense) attributable to:			
Owners of the Company		80,815	120,322
Non-controlling interests		(286)	(800)
		80,529	119,522
Earnings per share (US$)	14		
– basic and diluted		0.103	0.153

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

	Notes	2016 US$'000	2015 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*15*	378,080	375,339
Prepaid lease payments	*16*	17,271	18,044
Interests in associates	*17*	7,635	8,141
Interest in a joint venture	*18*	8,031	5,631
Deposit paid for acquisition of property, plant and equipment		48,661	27,893
		459,678	435,048
CURRENT ASSETS			
Inventories	*19*	210,412	208,482
Trade and other receivables	*20*	359,337	362,295
Bills receivables	*20*	336	317
Loan receivable	*21*	–	840
Prepaid lease payments	*16*	591	593
Amounts due from associates	*22*	24,407	37,544
Amount due from a joint venture	*23*	11,410	11,897
Held for trading investments	*25*	23,892	41,084
Cash and cash equivalents	*26*	82,453	145,126
		712,838	808,178
CURRENT LIABILITIES			
Trade and other payables	*27*	139,412	186,169
Bank borrowings – due within one year	*28*	114	15,140
Tax liabilities		51,884	53,626
Derivative financial instruments	*24*	5	788
		191,415	255,723
NET CURRENT ASSETS		521,423	552,455
		981,101	987,503

	Notes	2016 US$'000	2015 US$'000
CAPITAL AND RESERVES			
Share capital	29	10,160	10,160
Share premium and reserves		968,760	974,909
Equity attributable to owners of the Company		978,920	985,069
Non-controlling interests		(1,063)	(777)
TOTAL EQUITY		977,857	984,292
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	28	3,244	3,211
		981,101	987,503

The consolidated financial statements on pages 107 to 177 were approved and authorised for issue by the board of directors on 16 March 2017 and are signed on its behalf by:

Chen Li-Ming, Lawrence	Chi Lo-Jen
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Attributable to owners of the Company											
	Share capital US$'000	Share premium US$'000	Merger reserve US$'000 *(Note 1)*	Capital reserve US$'000 *(Note 2)*	Exchange reserve US$'000	Shares held for share award scheme US$'000	Capital redemption reserve US$'000 *(Note 3)*	Share award reserve US$'000	Accumulated profits US$'000	Sub-total US$'000	Non-controlling interests US$'000	Total US$'000
As at 1 January 2015	10,160	154,503	45,427	1,146	(3,791)	(2,722)	190	1,450	745,490	951,853	856	952,709
Profit (loss) for the year	–	–	–	–	–	–	–	–	121,047	121,047	(896)	120,151
Other comprehensive (expense) income for the year	–	–	–	–	(725)	–	–	–	–	(725)	96	(629)
Total comprehensive (expense) income for the year	–	–	–	–	(725)	–	–	–	121,047	120,322	(800)	119,522
Acquisition of additional interest in a subsidiary *(note 34)*	–	–	–	–	2	–	–	–	–	2	(833)	(831)
Dividend recognised as distribution *(note 13)*	–	–	–	–	–	–	–	–	(87,108)	(87,108)	–	(87,108)
As at 31 December 2015	10,160	154,503	45,427	1,146	(4,514)	(2,722)	190	1,450	779,429	985,069	(777)	984,292
Profit (loss) for the year	–	–	–	–	–	–	–	–	81,577	81,577	(363)	81,214
Other comprehensive (expense) income for the year	–	–	–	–	(762)	–	–	–	–	(762)	77	(685)
Total comprehensive (expense) income for the year	–	–	–	–	(762)	–	–	–	81,577	80,815	(286)	80,529
Dividend recognised as distribution *(note 13)*	–	–	–	–	–	–	–	–	(86,964)	(86,964)	–	(86,964)
As at 31 December 2016	10,160	154,503	45,427	1,146	(5,276)	(2,722)	190	1,450	774,042	978,920	(1,063)	977,857

Notes:

(1) The merger reserve represents the difference between the nominal value of the share capital issued by the Company and the share premium and the nominal value of the share capital of (i) Stella International Limited ("Stella International"), (ii) Stella International Marketing Company Limited and (iii) Stella Luna Sol Limited pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company in 2007.

(2) The capital reserve arises from the following transactions:

(i) During the year ended 31 December 2007, a shareholder of Stella International transferred 0.2% of her beneficial interests in Stella International to an employee of the Group by way of gift as an incentive to attract and retain the employee in the Group prior to the group reorganisation.

(ii) During the year ended 31 December 2007, Cordwalner Bonaventure Inc. ("Cordwalner") issued and allotted 1.17% preferred shares in Cordwalner with subscription price US$3,150,000 to Eagle Mate Capital Limited, a company owned by an employee, which will hold these shares on behalf of the employees as an incentive to attract and retain the employee in the Group after the listing of the Company's shares.

These transactions were accounted for as an equity-settled share-based payment transactions in equity, over the vesting period, based on the fair value of the relevant shares at the grant date.

(3) During the year ended 31 December 2008, the Company repurchased an aggregate of 14,870,500 own ordinary shares on the Stock Exchange (as defined in note 1 to the consolidated financial statements) and these repurchased shares were cancelled prior to 31 December 2008. The issued share capital of the Company was reduced by the nominal value of these repurchased shares in the amount of HK$1,487,000 (US$190,000) and the equivalent amount was transferred from accumulated profits to the capital redemption reserve pursuant to 37(4) of the Companies Law (2007 Revision) of the Cayman Islands. The premium paid on the repurchase of these shares in the amount of US$12,795,000 was charged to share premium. The aggregate consideration to repurchase these shares in the amount of US$12,985,000 was deducted from shareholders' equity.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	2016 US$'000	2015 US$'000
OPERATING ACTIVITIES		
Profit before tax	88,258	128,745
Adjustments for:		
Depreciation of property, plant and equipment	42,218	40,298
(Reversal of) write-down of inventories	(968)	1,444
Share of result of a joint venture	(1,370)	(90)
Share of results of associates	(43)	(247)
Net gain on changes in fair value of derivative financial instruments	(116)	(425)
Net (gain) loss on changes in fair value of held for trading investments	(1,110)	816
Bad debt expenses	–	1,288
Impairment loss recognised on trade receivables	–	1,000
Impairment loss recognised on other receivables	1,650	–
Gain on disposal of prepaid lease payments	(19,188)	–
Release of prepaid lease payments	958	509
Loss on disposal of property, plant and equipment	3,376	2,762
Finance costs	531	628
Interest income	(2,619)	(3,092)
Operating cash flows before movements in working capital	111,577	173,636
(Increase) decrease in inventories	(7,112)	5,187
Decrease in trade, bills and other receivables	7,070	311
Decrease (increase) in loan receivable	840	(840)
(Decrease) increase in trade and other payables	(33,450)	15,538
Decrease in held for trading investments	18,302	976
Decrease (increase) in amount due from a joint venture	487	(704)
Decrease (increase) in amounts due from associates	13,137	(11,897)
Cash generated from operations	110,851	182,207
Income taxes paid	(8,697)	(11,356)
NET CASH FROM OPERATING ACTIVITIES	102,154	170,851
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(48,013)	(48,087)
Decrease in derivative financial instruments	(667)	–
Acquisition of prepaid lease payments	(1,806)	–
Acquisition of additional interest in a subsidiary	–	(831)
Deposit paid for acquisition of property, plant and equipment	(26,973)	(36,440)
Investment in a joint venture	–	(5,547)
Proceeds from the disposal of prepaid lease payments	12,726	–
Interest received	2,619	3,092
NET CASH USED IN INVESTING ACTIVITIES	(62,114)	(87,813)

	2016 US$'000	2015 US$'000
FINANCING ACTIVITIES		
Interest paid	(531)	(628)
New short-term bank borrowing raised	–	15,000
New long-term bank borrowings raised	3,358	3,351
Repayment of short-term bank borrowing	(15,000)	–
Repayment of long-term bank borrowing	(3,351)	–
Dividend paid	(86,964)	(87,108)
NET CASH USED IN FINANCING ACTIVITIES	(102,488)	(69,385)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(62,448)	13,653
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	145,126	131,601
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(225)	(128)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR, represented by bank balances and cash	82,453	145,126

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 5 March 2007 and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 6 July 2007. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

The Company acts as an investment holding company. Particulars of the principal activities of its principal subsidiaries, associates and a joint venture are set out in notes 38, 17 and 18, respectively.

The consolidated financial statements are presented in United States dollars ("USD"), which is also the functional currency of the Company.

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKFRS 11	Accounting for acquisitions of interest in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle

The application of the above amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instrument[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 7	Disclosure initiative[4]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[4]

1 *Effective for annual periods beginning on or after 1 January 2018.*
2 *Effective for annual periods beginning on or after 1 January 2019.*
3 *Effective for annual periods beginning on or after a date to be determined.*
4 *Effective for annual periods beginning on or after 1 January 2017.*

HKFRS 9 Financial instruments

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

Key requirements of HKFRS 9:

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 9 Financial instruments *(continued)*

Key requirements of HKFRS 9: *(continued)*

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

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

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities, however, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 16 Leases

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

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

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of US$24,117,000 as disclosed in note 30. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

The directors of the Company anticipate that the application of the other new and amendments to HKFRSs will have no material impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period, as explained in accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Investment(s) in associates and a joint venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and a joint venture are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and a joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment(s) in associates and a joint venture *(continued)*

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of sales discounts and sales related taxes.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of the ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. USD) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

All borrowing costs for non-qualifying assets are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes in The People's Republic of China ("PRC") and the Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance and the Labour Standards Law (as amendment) in Taiwan are recognised as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions

Awarded shares granted to directors and employees

The fair value of service received, determined by reference to the fair value of awarded shares granted at the date of grant, is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share award reserve).

At the end of each reporting period, the Group revises its estimates of the number of the awarded shares that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share award reserve.

When awarded shares are vested, the amount previously recognised in share award reserve and the amount of the relevant treasury shares (held under the shares held for share award scheme) will be transferred to accumulated profits.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment including buildings and leasehold land (classified as finance lease) held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction and freehold land as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is stated at cost less accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than properties under construction and freehold land, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment on assets

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior year. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), held for trading investments and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as of which interest income is included in net gains or losses.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Financial assets at FVTPL (continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest earned on the financial assets and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 6c.

Held for trading investments

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Held for trading investments are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 6c.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade, bills and other receivables, loan receivable, amounts due from associates, amount due from a joint venture and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets

Financial assets, other than held for trading investments, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, 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 losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss ("FVTPL") or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 6c.

Other financial liabilities

Other financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Estimated impairment of trade receivables

The policy for allowance for bad or doubtful debts of the Group is based on the evaluation of collectability of amount based on management's estimate. In determining the impairment allowance for trade receivables, the management considers any changes in the creditability of its customers and assesses the recoverable amount of each individual receivables at the end of the reporting period based on objective evidence such as likelihood of collection of debts on an individual basis as well as on a collective basis, with reference to the debtor's payment history including default or delay in payments, settlement records, subsequent settlements and ageing analysis of the trade receivables. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. Where the actual future cash flows are less than expected, a material impairment loss/further impairment loss may arise. As at 31 December 2016, the carrying amount of trade receivables is approximately US$237,091,000 (31 December 2015: US$238,680,000). The allowance for doubtful debts is approximately US$487,000 (31 December 2015: US$1,500,000).

Allowance for inventories

Inventories are stated at the lower of cost and net realisable value. The estimated net realisable value was arrived based on the management's consideration of obsolete, slow-moving, or out-of-season inventories by considering the current market condition, marketing and promotion plan, historical sales record, ageing analysis and subsequent selling price, and identifies obsolete and slow-moving inventories that are no longer suitable for use in production nor saleable in the market. If the estimated net realisable value is lower than cost, a write-down on inventories is recongised in profit or loss. As at 31 December 2016, the carrying amount of inventories was approximately US$210,412,000 net of allowance for inventories of US$17,786,000 (31 December 2015: US$208,482,000 net of allowance for inventories of US$19,546,000).

Provision for income taxes

The Group is subject to income taxes in various jurisdictions. Judgement is required in determining the provision for income taxes by considering to relevant tax rules in different jurisdictions, relevant transfer pricing reports, historical tax assessments, historical tax assessments, tax arrangement with local tax authorities and correspondence with local tax authorities. The Group recognises tax liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the year in which the outcome becomes known. As at 31 December 2016, the carrying amount of tax liabilities of US$51,884,000 (31 December 2015: US$53,626,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Estimated impairment of amounts due from associates and amount due from a joint venture

Management regularly reviews the recoverability of the amounts due from associates and amount due from a joint venture. Appropriate impairment for estimated irrecoverable amount will be recognised in profit and loss when there is objective evidence that the amount is not recoverable, if necessary.

In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the aged status and likelihood of collection. Specific allowance is only made for the amounts due from associates and amount due from a joint venture that are unlikely to be collected and is recognised on the difference between the carrying amounts of amounts due from associates and amount due from a joint venture and the present value of estimated future cash flow discounted using the original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2016, the carrying amounts of amounts due from associates and amount due from a joint venture amounted to approximately US$24,407,000 (2015: US$37,544,000) and US$11,410,000 (2015: US$11,897,000) respectively.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, various reserves and accumulated profits.

The directors of the Company review the capital structure on an on-going basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2016 US$'000	2015 US$'000
Financial assets		
Held for trading investments	23,892	41,084
Loans and receivables (including cash and cash equivalents)	396,873	475,095
	420,765	516,179
Financial liabilities		
Amortised cost	115,505	132,657
Derivative financial instruments	5	788
	115,510	133,445

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies

The Group's major financial instruments include trade, bills and other receivable, amounts due from associates, amount due from a joint venture, held for trading investments, bank balances and cash, deposits placed in financial institutions, bank borrowings and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (represented by currency risk, interest rate risk and price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Group's sales are mainly denominated in USD. Its manufacturing operations are mainly located in the PRC and purchase of raw materials and operating expenses are denominated in Renminbi ("RMB"), EURO ("EUR"), Macau Pataca ("MOP"), Indonesian Rupiah ("IDR"), Vietnamese Dong ("VND") or USD. Its currency exposures is mainly due to exposure in RMB, EUR, MOP, IDR, VND and Hong Kong dollars ("HKD") against the functional currency of the relevant group companies. In addition, the Group's held for trading investments include listed bonds and funds of US$8,200,000 (2015: US$16,696,000) which are denominated in RMB. During both years, the Group entered into certain foreign currency option contracts and dual currency deposits to manage the currency exposure in relation to RMB.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period that are considered significant by management are as follows:

	Liabilities		Assets	
	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000
RMB	25,898	15,783	32,494	73,180
HKD	–	–	199	88
EUR	3,078	1,257	7,003	2,617
MOP	2,452	8,405	29,075	14,172
IDR	3,496	1,948	2,095	3,533
VND	–	–	6,965	–
Other	10,517	3,398	7,845	2,442

The Group's sensitivity of fluctuation in HKD is low as HKD denominated monetary assets were held by group entities whose functional currency is USD to which HKD is pegged.

The Group has entered into various foreign currency option contracts and dual currency deposits to minimise the Group's exchange rate exposures.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

Currency risk (continued)

In addition, the Group is also exposed to foreign currency risk in respect of inter-company balances. The exchange difference in relation to inter-company balances where the denomination is in a currency other than the functional currency of the Group, mainly comprising RMB injection into subsidiaries incorporated in the PRC (investments are insignificant in other countries), which forms part of the Company's net investments in foreign operations, is presented in other comprehensive income.

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in USD against the relevant foreign currencies. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts the translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit for the year and other comprehensive income where USD strengthen 5% against the relevant currency. For a 5% weakening of USD against the relevant currency, there would be an equal and opposite impact on the profit for the year and other comprehensive income and the balances below would be positive.

	RMB Impact		HKD Impact		EUR Impact		MOP Impact		IDR Impact		VND Impact	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Profit for the year	**(247)**	(2,152)	**195**	(3)	**(131)**	(46)	**(1,171)**	(254)	**53**	(59)	**(271)**	–
Other comprehensive income	**1,617**	4,004	**–**	(15)	**7**	3	**(39)**	(4)	**73**	122	**(86)**	–

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to a fixed-rate bank borrowing, and short-term deposits placed in banks and financial institutions that are interest-bearing at floating interest rates. The directors consider the Group's exposure of the bank deposits to fair value interest rate risk is not significant as interest bearing bank deposits have a short maturity period.

The Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risks. The directors monitor the Group's exposure on an ongoing basis and will consider hedging the interest rate should the need arise.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates in its variable-rate bank deposits, fixed-rate loan receivable, fixed-rate borrowing and variable-rate borrowing at the end of the reporting period. The analysis is prepared assuming the amounts outstanding at the end of the reporting period were outstanding for the whole year. A 25 basis point increase or 5 basis points decrease (2015: 25 increase or 5 decrease) is used by the management for the assessment of the possible change in interest rates.

If interest rates had been 25/5 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2016 would increase by approximately US$148,000/decrease by approximately US$30,000 (2015: increase by approximately US$218,000/decrease by approximately US$44,000).

Price risk

The Group is exposed to price risk through its held for trading investments which are measured at fair value at the end of each reporting period. The held for trading investments represent listed bonds and funds carrying fixed interest rates with their market value generally linked to market interest rate. The management manages this exposure by maintaining a portfolio of investments with different risks.

Sensitivity analysis

If the market price for the bonds in held-for-trading investments had been 5% higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2016 would increase/decrease by approximately US$896,000 (2015: US$1,472,000).

If the market price for the funds in held-for-trading investment had been 5% higher/lower, there would be no effect on the profit for the year ended 31 December 2016. (2015: profit would increase/decrease by US$69,000).

The Group's sensitivity to held-for-trading investments has not changed significantly from the prior year.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Credit risk

At 31 December 2016 and 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management considers the debtor's payment history including default or delay in payments, settlement records, subsequent settlements and ageing analysis of the trade receivables in determining the allowance for doubtful debts. The Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds and the bonds is limited because the counterparties are banks or multinational corporations with good reputation.

The Group's concentration of credit risk related to trade receivables by geographical locations is mainly in North America, which accounted for 57% (31 December 2015: 70%) of the total trade receivables as at 31 December 2016.

Regarding the Group's bank concentration credit risk, 88% (31 December 2015: 89%) of deposits are placed with 10 banks (31 December 2015: 10 banks).

The Group has concentration of credit risk on the amount due from an associate but the credit risk is limited because the associate has sufficient assets to cover the liabilities and good settlement record in the past.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensure compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	0 – 30 days or on demand US$'000	31 – 90 days US$'000	90 – 365 days US$'000	1 – 5 years US$'000	> 5 years US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
As at 31 December 2016							
Non-derivative financial liabilities							
Trade and other payables	85,004	10,922	16,221	–	–	112,147	112,147
Bank borrowings	–	–	114	3,244	–	3,358	3,358
	85,004	10,922	16,335	3,244	–	115,505	115,505
Derivatives financial liability							
Call option	5	–	–	–	–	5	5

	0 – 30 days or on demand US$'000	31 – 90 days US$'000	90 – 365 days US$'000	1 – 5 years US$'000	> 5 years US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
As at 31 December 2015							
Non-derivative financial liabilities							
Trade and other payables	92,981	7,050	2,160	12,115	–	114,306	114,306
Bank borrowings	15,012	35	94	588	2,622	18,351	18,351
	107,993	7,085	2,254	12,703	2,622	132,657	132,657
Derivatives – net settlement							
Foreign currency option contracts	788	–	–	–	–	788	788

6c. Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

6. FINANCIAL INSTRUMENTS *(continued)*

6c. Fair value measurements of financial instruments *(continued)*

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	Fair value as at 31 December 2016	Fair value as at 31 December 2015	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	US$'000	US$'000				
Held-for-trading non-derivative financial assets classified as held for trading investments in the consolidated statement of financial position	Listed bonds in Hong Kong – 8,030 Listed bonds in elsewhere – 15,862	Listed bonds in Hong Kong – 14,110 Listed bonds and funds in elsewhere – 26,974	Level 1	Quoted bid prices in an active market	N/A	N/A
Foreign currency option contracts classified as derivative financial instruments in the consolidated statement of financial position	Liabilities – Nil	Liabilities – 788	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties	N/A	N/A
Call option classified as derivative financial instruments in the consolidated statement of financial position	Liabilities – 5	Liabilities – Nil	Level 3	Binomial option pricing model by reference to the risk free rate and dividend yield	Discount rate Volatility	The higher the discount rate, the lower the fair value The higher the volatility, the higher the fair value

There were no transfers between Level 1 and 2 in the period.

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

6. FINANCIAL INSTRUMENTS *(continued)*

6c. Fair value measurements of financial instruments *(continued)*

Fair value hierarchy

	2016			
	Level 1	Level 2	Level 3	Total
	US$'000	US$'000	US$'000	US$'000
Financial assets				
Investments held for trading				
– Listed bonds and funds	23,892	–	–	23,892
Total	23,892	–	–	23,892
Financial liabilities				
Derivative financial instruments				
– Call option	–	–	(5)	(5)
Total	–	–	(5)	(5)

	2015			
	Level 1	Level 2	Level 3	Total
	US$'000	US$'000	US$'000	US$'000
Financial assets				
Investments held for trading				
– Listed bonds and funds	41,084	–	–	41,084
Total	41,084	–	–	41,084
Financial liabilities				
Derivative financial instruments				
– Foreign currency option contracts	–	(788)	–	(788)
Total	–	(788)	–	(788)

7. SEGMENT INFORMATION

Information reported to the chief executive of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of footwear manufactured and on footwear retailing and wholesaling. This is also the basis upon which the Group is organised and managed. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

1) Men's footwear – the manufacturing and sales of men's footwear
2) Women's footwear – the manufacturing and sales of women's footwear
3) Footwear retailing and wholesaling

7. SEGMENT INFORMATION *(continued)*

(a) Operating segments

Segment revenues and results

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

For the year ended 31 December 2016

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholesaling US$'000	Segment total US$'000	Eliminations US$'000	Consolidated US$'000
REVENUE						
External sales	507,669	965,427	77,768	1,550,864	–	1,550,864
Inter-segment sales	1,694	30,746	–	32,440	(32,440)	–
Total	509,363	996,173	77,768	1,583,304	(32,440)	1,550,864
Inter-segment sales are charged at prevailing market rates						
RESULTS						
Segment results	58,019	134,850	(1,852)	191,017	–	191,017
Unallocated income						
– Interest income on bank balances						494
– Interest income from held for trading investments						1,424
– Interest income from derivative financial instruments						701
– Rental income						1,206
– Sale of scrap						513
– Net gain on changes in fair value of derivative financial instruments						116
– Net gain on changes in fair value of held for trading investments						1,110
– Others						33,371
Unallocated expenses						
– Research and development costs						(62,048)
– Central administrative costs						(80,528)
– Finance costs						(531)
Share of result of a joint venture						1,370
Share of results of associates						43
Profit before tax						88,258

7. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Segment revenues and results *(continued)*

For the year ended 31 December 2015

	Men's footwear US$'000	Women's footwear US$'000	Footwear retailing and wholesaling US$'000	Segment total US$'000	Eliminations US$'000	Consolidated US$'000
REVENUE						
External sales	559,265	1,130,266	80,321	1,769,852	–	1,769,852
Inter-segment sales	1,743	25,632	–	27,375	(27,375)	–
Total	561,008	1,155,898	80,321	1,797,227	(27,375)	1,769,852
Inter-segment sales are charged at prevailing market rates						
RESULTS						
Segment results	78,213	190,459	(4,672)	264,000	–	264,000
Unallocated income						
– Interest income on bank balances						587
– Interest income from held for trading investments						2,306
– Rental income						1,325
– Sale of scrap						671
– Net gain on changes in fair value of derivative financial instruments						425
– Others						946
Unallocated expenses						
– Research and development costs						(59,888)
– Central administrative costs						(80,520)
– Net loss on changes in fair value of held for trading investments						(816)
– Finance costs						(628)
Share of result of a joint venture						90
Share of results of associates						247
Profit before tax						128,745

7. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Segment revenues and results *(continued)*

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of interest income on bank balances, interest income from held for trading investments, interest income from derivative financial instruments, rental income, sale of scrap, net gain on changes in fair value of derivative financial instruments, net gain (loss) on changes in fair value of held for trading investments, research and development costs, central administrative costs, finance costs, share of result of a joint venture and share of results of associates. This is the measure reported to the Group's chief executives for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

	2016 US$'000	2015 US$'000
Segment assets		
Men's footwear	439,743	437,068
Women's footwear	464,836	447,952
Footwear retailing and wholesaling	56,433	60,198
Total segment assets	961,012	945,218
Other assets	211,504	298,008
Consolidated assets	1,172,516	1,243,226

	2016 US$'000	2015 US$'000
Segment liabilities		
Men's footwear	77,001	81,167
Women's footwear	46,672	73,475
Footwear retailing and wholesaling	15,744	15,367
Total segment liabilities	139,417	170,009
Other liabilities	55,242	88,925
Consolidated liabilities	194,659	258,934

7. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Segment assets and liabilities *(continued)*

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

- all assets are allocated to reportable segments other than held for trading investments, cash and cash equivalents and unallocated corporate assets; and

- all liabilities are allocated to reportable segments other than bank borrowings, tax liabilities and unallocated corporate liabilities not belonging to any operating segments.

Other segment information

2016

	Men's Footwear US$'000	Women's Footwear US$'000	Footwear retailing and wholesaling US$'000	Total US$'000
Amounts included in the measure of segment profit or segment assets:				
Additions to property, plant and equipment	16,225	30,622	7,227	54,074
Release of prepaid lease payments	414	544	–	958
Depreciation	15,858	22,820	3,540	42,218
Write-down (reversal of write-down) of inventories	2,293	1,713	(4,974)	(968)
Interests in associates	–	6,900	735	7,635
Interest in a joint venture	8,031	–	–	8,031
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Share of result of a joint venture	1,370	–	–	1,370
Share of results of associates	–	(6)	49	43
Income tax expense	3,042	3,404	598	7,044

7. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

Other segment information *(continued)*

2015

	Men's Footwear US$'000	Women's Footwear US$'000	Footwear retailing and wholesaling US$'000	Total US$'000
Amounts included in the measure of segment profit or segment assets:				
Additions to property, plant and equipment	16,665	44,222	5,072	65,959
Release of prepaid lease payments	211	298	–	509
Depreciation	16,185	21,178	2,935	40,298
(Reversal of) write-down of inventories	(469)	2,115	(202)	1,444
Interests in associates	–	7,398	743	8,141
Interest in a joint venture	5,631	–	–	5,631
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Share of result of a joint venture	90	–	–	90
Share of results of associates	–	(38)	285	247
Income tax expense	3,373	5,107	114	8,594

(b) Revenue from major products and services

	2016 US$'000	2015 US$'000
Men's footwear	509,625	561,222
Women's footwear	1,041,239	1,208,630
	1,550,864	1,769,852

7. SEGMENT INFORMATION *(continued)*

(c) Geographical information

The Group's revenue from external customers is presented based on location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets:

	Revenue from external customers		Non-current assets As at 31 December	
	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000
United States of America	761,096	878,800	–	–
The PRC	202,603	222,363	298,637	322,297
United Kingdom	134,263	172,978	–	–
Netherlands	54,203	64,026	–	–
Italy	24,134	31,609	100	71
Canada	40,354	45,534	–	–
Japan	41,546	43,069	–	–
Germany	35,027	58,273	–	–
Belgium	49,100	35,452	–	–
Spain	21,194	28,411	–	–
Others	187,344	189,337	160,941	112,680
	1,550,864	1,769,852	459,678	435,048

(d) Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2016 US$'000	2015 US$'000
Customer A[1]	312,965	389,121
Customer B[1]	286,571	296,901
Customer C[1]	152,317	231,165

[1] *Revenue from both men's and women's footwear operating segments in aggregate*

8. OTHER INCOME

	2016 US$'000	2015 US$'000
Interest income on bank balances	494	786
Interest income from held for trading investments	1,424	2,306
Interest income from derivative financial instruments	701	–
Rental income	1,206	1,325
Sales of scrap	513	1,179
Government subsidies	6,512	6,105
Others	8,502	5,969
	19,352	17,670

9. OTHER GAINS AND LOSSES

	2016 US$'000	2015 US$'000
Loss on disposal of property, plant and equipment	(3,376)	(2,762)
Gain on disposal of prepaid lease payments	19,188	–
Net exchange gain	1,722	834
Net gain (loss) on changes in fair value of held for trading investments	1,110	(816)
Net gain on changes in fair value of derivative financial instruments	116	425
	18,760	(2,319)

10. INCOME TAX EXPENSE

	2016 US$'000	2015 US$'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	17,838	15,884
Hong Kong Profits Tax	279	–
Other jurisdictions	334	132
	18,451	16,016
Overprovision in prior years:		
PRC EIT	(11,407)	(7,422)
	7,044	8,594

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

10. INCOME TAX EXPENSE *(continued)*

Under the law of the PRC on EIT and Implementation Regulation of the EIT law, the tax rate of the PRC subsidiaries is 25% for both years.

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, Stella International Trading (Macao Commercial Offshore) Limited ("SIT (MCO)"), a subsidiary acquired in year 2011 is exempted from Macao Complementary Tax.

Taxation arising in other jurisdictions including Indonesia and Italy is calculated at the rate prevailing in the relevant jurisdictions.

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 US$'000	2015 US$'000
Profit before tax	88,258	128,745
Tax at the applicable PRC EIT rate of 25% (2015: 25%)	22,065	32,186
Tax effect of expenses not deductible for tax purposes	19,222	18,659
Tax effect of income not taxable for tax purposes	(892)	(827)
Tax effect of share of results of associates	(7)	(31)
Tax effect of share of result of a joint venture	(411)	(27)
Effect of tax exemptions granted to SIT (MCO)	(20,293)	(32,588)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,233)	(1,356)
Overprovision in respect of prior years	(11,407)	(7,422)
Income tax expense	7,044	8,594

11. PROFIT FOR THE YEAR

	2016 US$'000	2015 US$'000
Profit for the year has been arrived at after charging:		
Directors' emoluments *(note 12)*	1,687	2,437
Other staff costs	341,852	354,931
Termination benefits	16,151	12,721
Retirement benefit scheme contributions, excluding directors	3,891	4,165
Total staff costs	363,581	374,254
Auditor's remuneration	489	533
Cost of inventories recognised as an expense (including reversal of write-down of inventories of US$968,000 (2015: write-down of inventories of US$1,444,000))	1,260,320	1,398,222
Depreciation of property, plant and equipment	42,218	40,298
Release of prepaid lease payments	958	509
Share of taxation of associates (included in share of results of associates)	225	473
Share of taxation of a joint venture (included in share of result of a joint venture)	110	36

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and the chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance is as follows:

For the year ended 31 December 2016

A) Executive directors

	Jeh-Chung, Jack CHIANG US$'000	Ming-Cheng, Eric CHAO US$'000	Li-Ming, Lawrence CHEN US$'000	Lo-Jen, CHI US$'000	Total 2016 US$'000
Fees	39	39	39	39	156
Other emoluments					
– salaries and other allowances	77	70	62	62	271
– bonus *(Note)*	250	200	200	400	1,050
– retirement benefit scheme contributions	1	–	1	–	2
Sub-total	367	309	302	501	1,479

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

B) Independent non-executive directors

	Johnny CHEN US$'000	Peter BOLLIGER US$'000	Fu-Keung William CHAN US$'000	Chao-Tang Thomas YUE US$'000	Total 2016 US$'000
Fees	52	52	52	52	208
Other emoluments					
– salaries and other allowances	–	–	–	–	–
– bonus *(Note)*	–	–	–	–	–
– retirement benefit scheme contributions	–	–	–	–	–
Sub-total	52	52	52	52	208
					1,687

The independent directors' emoluments shown above were mainly for their services as directors of the Company.

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(continued)*

For the year ended 31 December 2015

A) Executive directors

	Jeh-Chung, Jack CHIANG US$'000	Ming-Cheng, Eric CHAO US$'000	Li-Ming, Lawrence CHEN US$'000	Lo-Jen, CHI US$'000	Total 2015 US$'000
Fees	39	39	39	39	156
Other emoluments					
– salaries and other allowances	77	70	62	62	271
– bonus *(Note)*	500	400	400	500	1,800
– retirement benefit scheme contributions	1	–	1	–	2
Sub-total	617	509	502	601	2,229

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

B) Independent non-executive directors

	Johnny CHEN US$'000	Peter BOLLIGER US$'000	Fu-Keung William CHAN US$'000	Chao-Tang Thomas YUE US$'000	Total 2015 US$'000
Fees	52	52	52	52	208
Other emoluments					
– salaries and other allowances	–	–	–	–	–
– bonus *(Note)*	–	–	–	–	–
– retirement benefit scheme contributions	–	–	–	–	–
Sub-total	52	52	52	52	208
					2,437

The independent directors' emoluments shown above were mainly for their services as directors of the Company.

Note: The performance related incentive payment is determined with reference to the financial performance of the Group and are first reviewed by the remuneration committee of the Board and then approved by the Board for the two years ended 31 December 2016 and 31 December 2015.

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(continued)*

Mr. Li-Ming, Lawrence CHEN is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

Employees

The five highest paid employees in the Group during the year included four (2015: four) directors, details of whose emoluments are set out above. Details of the remuneration for the year of the remaining one (2015: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2016 US$'000	2015 US$'000
Salaries, allowances and benefits in kind	115	115
Performance related bonus	136	170
Retirement benefits	1	1
	252	286

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during both years.

13. DIVIDENDS

	2016 US$'000	2015 US$'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2015 final dividend of HK55 cents per share (2015: 2014 final dividend of HK55 cents per share) paid	56,290	56,360
2016 interim dividend of HK30 cents per share (2015: HK30 cents per share) paid	30,674	30,748
	86,964	87,108

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2016 of HK30 cents (2015: final dividend in respect of the year ended 31 December 2015 of HK55 cents) per ordinary share has been proposed by the directors of the Company. Moreover, a special dividend of HK10 cents per ordinary share for the year ended 31 December 2016 (31 December 2015: Nil) has been proposed by the directors of the Company. Both of the final dividend and special dividend are subject to approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

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

	2016 US$'000	2015 US$'000
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company)	81,577	121,047
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	792,601,500	792,601,500

The weighted average number of ordinary shares for the purposes of basic and diluted earnings per share have been arrived at after deducting the shares held in trust for the Company by Teeroy Limited (see note 32).

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land US$'000	Buildings US$'000	Plant and machinery US$'000	Furniture, fixture and equipment US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
COST							
As at 1 January 2015	–	245,573	228,402	40,335	9,908	68,158	592,376
Exchange adjustments	–	(2,236)	(2,576)	(1,434)	(278)	(1,003)	(7,527)
Additions	3,373	9,515	16,965	21,664	733	13,709	65,959
Transfer	–	39,541	375	2,491	534	(42,941)	–
Disposals	–	(1,450)	(5,885)	(515)	(295)	(249)	(8,394)
As at 31 December 2015	3,373	290,943	237,281	62,541	10,602	37,674	642,414
Exchange adjustments	68	(3,045)	(3,398)	(1,085)	(408)	(1,184)	(9,052)
Additions	–	11,284	13,668	11,907	977	16,238	54,074
Transfer	–	8,073	960	2,682	84	(11,799)	–
Disposals	–	(2,832)	(5,805)	(717)	(833)	(989)	(11,176)
As at 31 December 2016	3,441	304,423	242,706	75,328	10,422	39,940	676,260
DEPRECIATION							
As at 1 January 2015	–	58,636	140,874	28,844	7,466	–	235,820
Exchange adjustments	–	(1,108)	(1,096)	(1,024)	(183)	–	(3,411)
Provided for the year	–	13,604	11,791	13,764	1,139	–	40,298
Eliminated on disposals	–	(463)	(4,646)	(273)	(250)	–	(5,632)
As at 31 December 2015	–	70,669	146,923	41,311	8,172	–	267,075
Exchange adjustments	–	(1,089)	(1,186)	(816)	(222)	–	(3,313)
Provided for the year	–	14,702	12,244	13,942	1,330	–	42,218
Eliminated on disposals	–	(2,280)	(4,298)	(541)	(681)	–	(7,800)
As at 31 December 2016	–	82,002	153,683	53,896	8,599	–	298,180
CARRYING VALUES							
As at 31 December 2016	3,441	222,421	89,023	21,432	1,823	39,940	378,080
As at 31 December 2015	3,373	220,274	90,358	21,230	2,430	37,674	375,339

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The following years are used for the depreciation of property, plant and equipment other than construction in progress after considering their respective useful lives:

Freehold land	Indefinite
Buildings	20 years or shorter of the lease terms of the relevant leasehold lands
Plant and machinery	5 – 10 years
Furniture, fixture and equipment	5 years
Motor vehicles	5 years

The Group's freehold land is situated in Taiwan.

The Group has not yet obtained the legal title of the building with an aggregate carrying amount of US$6,425,000 (2015: US$7,254,000).

The Group has pledged freehold land and buildings with net book values of approximately US$3,441,000 (2015: US$3,373,000) and US$2,107,000 (2015: US$2,171,000), respectively to secure a bank loan granted to the Group.

16. PREPAID LEASE PAYMENTS

	2016 US$'000	2015 US$'000
Current portion of prepaid lease payments	591	593
Non-current portion	17,271	18,044
	17,862	18,637

During the year ended 31 December 2016, the Group acquired additional prepaid lease payments of US$1,806,000 (2015: Nil) and disposed prepaid lease payments of US$304,000 (2015: Nil).

The carrying amount represents upfront payment for medium-term land use rights in the PRC, Vietnam and Indonesia. The land is used for business operation.

The Group had fully paid consideration for land use rights in the PRC, Vietnam and Indonesia. However, the Group has not yet obtained some titles of the land use rights in the PRC with an aggregate carrying amount of US$2,734,000 (2015: US$2,823,000). The Group is in the process of obtaining the land use rights certificates.

17. INTERESTS IN ASSOCIATES

	2016 US$'000	2015 US$'000
Cost of investments in associates – unlisted	26,200	26,200
Share of post-acquisition losses and other comprehensive income, net of dividend received	(14,537)	(14,031)
Impairment of an associate	(4,028)	(4,028)
	7,635	8,141

As at 31 December 2016 and 2015, the Group had interests in the following associates:

Name of entity	Form of business structure	Country of incorporation/ registration	Place of establishment/ principal place of operation	Class of share held	Proportion of nominal value of registered capital/ issued capital held by the Group 2016	2015	Proportion of voting rights held by the Group 2016	2015	Principal activities
辛集市寶得福皮業有限公司 Xinji Baodefu Leather Co. Ltd. ("Baodefu") *(Note)*	Sino-foreign co-operation joint venture	The PRC	The PRC	Capital injection	60%	60%	40%	40%	Manufacturing and sales of leather products and footwear
Couture Accessories Limited ("Couture Accessories")	Limited company	Hong Kong	Hong Kong	Ordinary	40%	40%	40%	40%	Footwear wholesaling

Note: The Group holds 60% of the registered capital of Baodefu. However, under a shareholders' agreement, the other shareholder controls the composition of the board of directors and therefore the Group does not control Baodefu. The directors of the Company consider that the Group does exercise significant influence over Baodefu and, therefore it is classified as an associate of the Group.

Summarised financial information of material associates

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

All of these associates are accounted for using the equity method in these consolidated financial statements.

17. INTERESTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

Baodefu

	2016 US$'000	2015 US$'000
Current assets	46,195	36,460
Non-current assets	5,941	7,363
Current liabilities	40,636	31,443
Non-current liabilities	–	–

	2016 US$'000	2015 US$'000
Revenue	116,392	120,961
Loss for the year	(9)	(65)
Other comprehensive (expense) income for the year	(871)	663
Total comprehensive (expense) income for the year	(880)	598

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2016 US$'000	2015 US$'000
Net assets of Baodefu	11,500	12,380
Proportion of the Group's ownership interest in Baodefu	60%	60%
Carrying amount of the Group's interest in Baodefu	6,900	7,428

17. INTERESTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

Couture Accessories

	2016 US$'000	2015 US$'000
Current assets	3,020	2,951
Non-current assets	–	–
Current liabilities	1,182	1,168
Non-current liabilities	–	–

	2016 US$'000	2015 US$'000
Revenue	895	2,541
Profit for the year	122	713
Other comprehensive expense for the year	(68)	(149)
Total comprehensive income for the year	54	564

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2016 US$'000	2015 US$'000
Net assets of Couture Accessories	1,838	1,783
Proportion of the Group's ownership interest in Couture Accessories	40%	40%
Carrying amount of the Group's interest in Couture Accessories	735	713

18. INTEREST IN A JOINT VENTURE

On 9 August 2015, the Group acquired a 49% equity interest in Bay Footwear Limited ("Bay Footwear"), at a cash consideration of Bangladeshi Taka 433,076,000 (equivalent to approximately US$5,547,000). Pursuant to the relevant shareholder agreement, the Group is able to exercise joint control with counterparty over Bay Footwear in the financial and operating policy decisions. Accordingly, Bay Footwear is regarded as a joint venture of the Group.

Details of the Group's interest in a joint venture are as follows:

	2016 US$'000	2015 US$'000
Cost of investment in a joint venture – unlisted	5,547	5,547
Share of post-acquisition profits and other comprehensive income	2,484	84
	8,031	5,631

Details of the Group's joint venture at the end of the reporting period are as follow:

Name of entity	Form of business structure	Country of incorporation/ registration	Place of establishment/ principal place of operation	Class of share held	Proportion of nominal value of registered capital/issued capital held by the Group		Proportion of voting rights held by the Group		Principal activities
					2016	2015	2016	2015	
Bay Footwear	Limited company	Bangladesh	Bangladesh	Ordinary	49%	49%	50%	50%	Manufacturing of footwear

Summarised financial information of a material joint venture

Summarised financial information in respect of the Group's material joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

The joint venture is accounted for using the equity method in these consolidated financial statements.

18. INTEREST IN A JOINT VENTURE *(continued)*

Bay Footwear

	2016 US$'000	2015 US$'000
Current assets	28,492	21,536
Non-current assets	14,003	14,045
Current liabilities	26,106	24,089
Non-current liabilities	–	–

The above amounts of assets and liabilities include the following:

	2016 US$'000	2015 US$'000
Cash and cash equivalents	–	–
Current financial liabilities (excluding trade and other payables and provisions)	–	–
Non-current financial liabilities (excluding trade and other payables and provisions)	–	–

	1.1.2016 to 31.12.2016 US$'000	9.8.2015 to 31.12.2015 US$'000
Revenue for the year/period	48,445	16,370
Profit for the year/period	2,795	185
Other comprehensive income (expense) for the year/period	2,103	(13)
Total comprehensive income for the year/period	4,898	172

18. INTEREST IN A JOINT VENTURE *(continued)*

Bay Footwear *(continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in a joint venture recognised in the consolidated financial statements:

	2016 US$'000	2015 US$'000
Net assets of Bay Footwear	16,389	11,492
Proportion of the Group's ownership interest in Bay Footwear	49%	49%
Carrying amount of the Group's interest in Bay Footwear	8,031	5,631

19. INVENTORIES

	2016 US$'000	2015 US$'000
Raw materials	40,787	54,131
Work-in-progress	67,229	71,512
Finished goods	102,396	82,839
	210,412	208,482

The directors of the Company have assessed the net realisable values and condition of the Group's inventories as at 31 December 2016 and have considered a reversal of write-down of inventories of US$968,000 (2015: write-down of inventories of US$1,444,000) be made.

20. TRADE, BILLS AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of the Group's trade and bills receivables net of allowance for doubtful debts presented based on invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

	2016 US$'000	2015 US$'000
Trade and bills receivables:		
0 – 30 days	137,100	142,420
31 – 60 days	74,404	66,190
61 – 90 days	14,660	11,224
Over 90 days	10,927	18,846
	237,091	238,680
Other receivables	122,582	123,932
	359,673	362,612

Other receivables include prepayments to suppliers of US$79,442,000 (2015: US$79,412,000).

The movement in the allowance for doubtful debts on other receivables were as follows:

	2016 US$'000	2015 US$'000
Balance at the beginning of year	–	–
Impairment loss recognised on other receivables	1,650	–
Balance at the end of year	1,650	–

Included in the allowance for doubtful debts on other receivables above with an aggregate balance of US$1,650,000 (2015: Nil) were individual impaired other receivables. The individually impaired other receivables related to other debtors that were past due or in default of payments and the Group assessed that these other receivables are generally not recoverable. The Group does not hold any collateral over these balances.

20. TRADE, BILLS AND OTHER RECEIVABLES *(continued)*

The carrying amounts of the remaining other receivables that were neither past due nor impaired relate to other debtors for whom there were no recent history of default.

Included in the Group's trade, bills and other receivables balance are debtors with aggregate amount of US$36,287,000, US$4,000, US$217,000, US$196,980,000, Nil, US$3,035,000 and US$281,000 (2015: US$7,715,000, US$74,000, US$3,297,000, US$3,645,000, US$523,000, Nil and US$396,000) which are denominated in RMB, HKD, EUR, MOP, IDR, VND and other currencies other than the functional currency of the respective group entities and are exposed to currency risk.

Before accepting a new customer, the Group has to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed periodically. The majority of the trade and bills receivables that are neither past due nor impaired have no default payment history.

Included in the Group's trade and bills receivable balance are debtors with aggregate carrying amount of US$8,850,000 (2015: US$4,105,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Ageing of trade and bills receivables based on the invoice dates which are past due but not impaired:

	2016 US$'000	2015 US$'000
31 – 60 days	3,248	1,815
61 – 90 days	1,510	692
Over 90 days	4,092	1,598
	8,850	4,105

The movement in the allowance for doubtful debts on trade receivables were as follows:

	2016 US$'000	2015 US$'000
Balance at the beginning of year	1,500	2,636
Impairment loss recognised on trade receivables	–	1,000
Amounts written off as uncollectible	(1,013)	(2,136)
Balance at the end of year	487	1,500

21. LOAN RECEIVABLE

	2016 US$'000	2015 US$'000
Fixed-rate loan receivable	–	840

As at 31 December 2015, the Group had a loan receivable denominated in European dollars amounting to US$840,000, which carried fixed interest rate at 4.9% per annum, and was repayable within one year. This balance was settled in full during the year ended 31 December 2016.

22. AMOUNTS DUE FROM ASSOCIATES

	As at 31 December		Maximum amount outstanding for year ended 31 December	
Name of company	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000
Baodefu	23,975	36,863	36,863	36,863
Couture Accessories	432	681	681	1,670
	24,407	37,544		

The amounts due from associates are trading balances, representing prepayments to associates for purchase of goods. The amounts are unsecured and interest-free.

23. AMOUNT DUE FROM A JOINT VENTURE

	As at 31 December		Maximum amount outstanding for year ended 31 December	
Name of company	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000
Bay Footwear	11,410	11,897	11,897	11,897

The amount due from a joint venture is a trading balance, representing prepayments to a joint venture for purchase of goods. The amount is unsecured and interest-free.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	Liabilities	
	2016 US$'000	2015 US$'000
Foreign currency option contracts	–	788
Call option	5	–
	5	788

Foreign currency option contracts and dual currency deposits

The Group entered into derivative financial instruments, including foreign currency option contracts and dual currency deposits ("DCD"), to manage exposure to foreign exchange fluctuations and to improve the returns on its cash assets.

DCD is a US$ or EUR denominated transaction that provides an enhanced guaranteed interest payment at maturity. However, the currency delivered at maturity depends upon a specified conversion rate ("Strike Rate") on the valuation date.

For DCD denominated in US$, the Group will receive the final payment amount at maturity in US$ plus the coupon (comprised of interest portion and premium portion) if the spot rate on the valuation date is above the Strike Rate. If the spot rate on the valuation date is equal to or less than the Strike Rate, the Group will receive final payment amount in EUR plus the coupon, both converted at a rate equivalent to the Strike Rate.

For DCD denominated in EUR, the Group will receive the final payment amount at maturity in EUR plus the coupon (comprised of interest portion and premium portion) if the spot rate on the valuation date is above the Strike Rate. If the spot rate on the valuation date is equal to or less than the Strike Rate, the Group will receive final payment amount in US$ plus the coupon, both converted at a rate equivalent to the Strike Rate.

During the year ended 31 December 2016, all DCD held by the Group were expired. The resulting net loss on changes in fair value of derivative financial instruments from DCD of US$563,000 (2015:Nil) is recognised in the consolidated statement of profit or loss.

As at 31 December 2015, the major terms of outstanding foreign currency option contracts are as follows:

31 December 2015

Notional amount	Maturity	Exchange rate
USD16,000,000	8 August 2016	USD1: RMB6.33

During the years ended 31 December 2016, foreign currency option contracts held by the Group were expired or exercised. The resulting net gain on changes in fair value of derivative financial instruments from foreign currency option contracts of US$684,000 (2015: net gain on changes in fair value of derivative financial instruments from foreign currency option contracts of US$440,000) is recognised in the consolidated financial statement of profit or loss.

The above derivatives were measured at fair value at the end of the reporting period. Their fair values were determined based on quoted forward exchange rates for equivalent instruments at the end of reporting period.

24. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Call option

On 18 October 2016, the Group entered into an investment agreement (the "Investment Agreement") with Max Group Holdings Limited (the "Max Group"), indirectly owned as to approximately 64.75% by the brother of Mr. Chiang, an executive Director and chairman of the Group. The Investment Agreement comprises that:

(i) the call option (the "Stella Call Option") granted by the Group to Max Group, pursuant to which the Max Group is entitled to acquire 60% interests in a special purpose vehicle (the "SPV") to be incorporated from the restructuring of the Group's PRC retail business, and the consideration to be the lowest of 60% of the consolidated net asset value of the SPV as shown on its unaudited consolidated financial statements specified date agreed; or US$50,000,000;

(ii) the warrant (the "Max Warrant") to be granted by Max Group to the Group, pursuant to which the Group is entitled to subscribe for up to 20% of the enlarged issued share capital of Max Group at any time during the Max Warrant exercise period at the Max Warrant subscription price subject to satisfaction of certain conditions precedent. Such consideration to be determined is based on six times of audited net profit after tax of Max Group for the specific financial years ending 28 February 2019, 2020 or 2021 for the exercise period within 180 days for each of the specific financial years ending stated above; and

(iii) the put option (the "Max Put Option") to be granted by Max Group to the Group, pursuant to which, if the listing of the shares of Max Group fails to take place within three years after the completion of the subscription of the 20% of the enlarged issued share capital of Max Group pursuant to the exercise of the Max Warrant, the Group may require Max Group to repurchase all of the Max Put Option shares at a consideration of which to be the aggregate of (i) the Max Warrant subscription price paid to Max Group; (ii) an interest accrued on the Max Warrant subscription price at the interest rate of 3% per annum, less (iii) any dividends paid by Max Group since the date of completion of exercise of the Max Warrant. The exercise period of this Max Put Option is the period of six months commencing from the third anniversary date after the date of completion of exercise of the Max Warrant.

The grant of the Stella Call Option resulted in a derivative financial liability of RMB37,000 (equivalent to US$5,000), and was initially recognised in profit or loss at fair value on the date when such derivative contract entered into and subsequently re-measured to its fair value at the end of the reporting period.

The valuations of call option were carried out by Ascent Partners Valuation Service Limited, an independent professional qualified valuer not connected with the Group. The fair values were determined using a binomial option pricing model.

As at 31 December 2016, the Stella Call Option was not yet exercised by Max Group, and therefore the Max Warrant or Max Put Option were not yet been granted to the Group.

25. HELD FOR TRADING INVESTMENTS

	2016 US$'000	2015 US$'000
Bonds:		
– listed in Hong Kong	8,030	14,110
– listed overseas	15,862	25,134
Investment funds:		
– listed overseas	–	1,840
	23,892	41,084

The above financial instruments are managed as a portfolio by a financial institution.

The fair values of the above investments were measured with reference to quoted market price provided by the financial institution managing the funds.

Included in the Group's held for trading investments are listed bonds and funds of US$8,200,000 (2015: US$16,696,000) which are denominated in RMB and are exposed to currency risk.

26. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise bank balances and cash held by the Group and short-term deposits placed in banks and financial institutions that are interest-bearing at market interest rates and have a maturity of three months or less.

Bank balances and cash held in the PRC of US$30,959,000 (2015: US$53,286,000) are subject to foreign exchange control.

Cash and cash equivalents of US$24,437,000, US$2,273,000, US$3,011,000, US$23,000, US$824,000, US$7,192,000 and US$8,812,000 (2015: US$47,547,000, US$4,423,000, US$2,443,000, US$19,000, US$1,782,000, US$1,000 and US$1,757,000) are denominated in RMB, HKD, EUR, MOP, IDR, VND and other currencies other than the functional currency of respective group entities and are exposed to currency risk.

The bank deposits and balances carry interest rates ranging from 0.01% to 20% (2015: 0.25% to 5%) per annum.

27. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables presented based on invoice date at the end of the reporting period:

	2016 US$'000	2015 US$'000
Trade payables:		
0 – 30 days	63,902	67,535
31 – 60 days	7,171	7,050
Over 60 days	19,972	14,276
	91,045	88,861
Other payables	48,367	97,308
	139,412	186,169

The average credit period on purchase of goods is 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe. The liquidity risk of the Group's trade and other payables are detailed in note 6b.

Included in the Group's trade and other payables balance are creditors with aggregate amount of US$12,150,000, US$3,000, Nil, US$22,798,000, US$1,625,000 and US$2,654,000 (2015: US$26,599,000, US$3,000, US$1,680,000, US$10,259,000, US$5,420,000, Nil and US$316,000) which are denominated in RMB, HKD, EUR, MOP, IDR and other currencies other than the functional currency of respective group entities and are exposed to currency risk.

28. BANK BORROWINGS

	2016 US$'000	2015 US$'000
Bank borrowings comprised of:		
Bank loan – secured	3,358	3,351
Bank loan – unsecured	–	15,000
	3,358	18,351

The carrying amounts of the above borrowings are repayable*:

	2016 US$'000	2015 US$'000
Within one year	114	140
Within a period of more than one year but not exceeding two years	228	143
Within a period of more than two years but not exceeding five years	3,016	446
Within a period of more than five years	–	2,622
	3,358	3,351
The carrying amount of bank loan that is not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	–	15,000
Less: Amounts shown under current liabilities	(114)	(15,140)
Amounts shown under non-current liabilities	3,244	3,211

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

Secured bank loan

As at 31 December 2015, included in bank borrowings was a secured bank loan denominated in New Taiwan dollars amounting to US$3,351,000, which was repayable within twenty years and carrying fixed interest rate at 1.85% per annum. It was secured by the Group's freehold land and building with carrying amounts of US$3,373,000 and US$2,171,000 respectively. The proceeds were used mainly for general working capital purposes. This balance was shown under current and non-current liabilities as at 31 December 2015, and was early repaid in full during the year ended 31 December 2016.

28. BANK BORROWINGS *(continued)*

Secured bank loan *(continued)*

As at 31 December 2016, included in bank borrowings is a new secured bank loan denominated in New Taiwan dollars amounting to US$3,351,000, which is repayable within 5 years with 1 year grace period and carrying at benchmark interest rate per month. The effective interest rate during the period (which is equal to contractual interest rate) of this bank borrowing is 1.09% per month. It is secured by the Group's freehold land and building with carrying amount of US$3,441,000 and US$2,107,000. The proceeds are used mainly for general working capital purposes. This balance is shown under current and non-current liabilities as at 31 December 2016.

Unsecured bank loan

As at 31 December 2015, included in bank borrowings was an unsecured bank loan denominated in United States dollars amounting to US$15,000,000 which contained a repayment on demand clause and was carrying variable interest rate ranging from 0.95% to 1.45% per annum. The proceeds were used mainly for general working capital purposes. This balance was shown under current liabilities as at 31 December 2015, and was repaid in full during the year ended 31 December 2016.

29. SHARE CAPITAL

	Number of shares	Nominal value	
		HK$'000	US$'000
Ordinary shares of HK$0.10 each			
Authorised:			
As at 1 January 2015, 31 December 2015 and 31 December 2016	5,000,000,000	500,000	63,975
Issued and fully paid:			
As at 1 January 2015, 31 December 2015 and 31 December 2016	794,379,500	79,438	10,160

30. OPERATING LEASES

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2016 US$'000	2015 US$'000
Within one year	1,019	–
In the second to fifth years inclusive	3,024	–
Over Five years	615	–
	4,658	–

30. OPERATING LEASES *(continued)*

The Group as lessor *(continued)*

As at 31 December 2016, all of the properties held had committed tenants within eight years. Leases were negotiated for terms varying from one to eight years. Property rental income earned during the year was US$1,206,000 (2015: US$1,325,000).

The Group as lessee

	2016 US$'000	2015 US$'000
Minimum lease payments paid under operating leases:		
during the year:		
– retail stores	4,301	5,120
– other properties	5,585	5,993
	9,886	11,113
Contingent rentals	13,101	13,671
	22,987	24,784

Contingent rentals are calculated with reference to 10% to 30% (2015: 9% to 27%) of the relevant retail shops' turnover.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016 US$'000	2015 US$'000
Within one year	9,052	7,459
In the second to fifth years inclusive	13,259	15,672
Over five years	1,806	3,720
	24,117	26,851

30. OPERATING LEASES *(continued)*

The Group as lessee *(continued)*

Operating lease payments represent rentals payable by the Group for certain of its factories, office, shops and staff quarters. Leases are negotiated for lease terms of two to twenty years with fixed rentals and/or contingent rentals.

The above lease commitments represent basic rents only and do not include contingent rents payable in respect of certain retail shops leased by the Group. In general, these contingent rents are calculated with reference to the relevant retail shops' turnover using pre-determined formula. It is not possible to estimate in advance the amount of such contingent rent payable.

31. CAPITAL COMMITMENTS

	2016 US$'000	2015 US$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	12,615	15,118

32. SHARE-BASED PAYMENT TRANSACTIONS

Long Term Incentive Scheme

The Company's long term incentive scheme (the "Scheme") was adopted pursuant to a resolution passed on 15 June 2007 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 14 June 2017. Under the Scheme, the board of directors of the Company may grant an award ("Award") either by way of option to subscribe shares of the Company, an award of shares or a grant of a conditional right to acquire shares, to eligible employees, including directors of the Company and its subsidiaries. Insofar as the Listing Rules require and subject to paragraph 12.6 of the Scheme, any offer proposed to be made to a director or a chief executive or a substantial shareholder or a connected person of the Company or any of his, her or its associates must be approved by all the independent non-executive directors (excluding an independent non-executive director who is the proposed grantee).

The total number of shares in respect of which Award may be granted under the Scheme is not permitted to exceed 30% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued upon exercise of options or vesting of Award granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue as at the offer date, without prior approval from the Company's shareholders. The total number of shares issued or to be issued to satisfy Award granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

32. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

Long Term Incentive Scheme *(continued)*

Pursuant to the Scheme, the Company appointed a trustee, Teeroy Limited (the "Trustee"), for the purpose of administering the Scheme and holding the awarded shares before they vest.

As at 31 December 2016 and 2015, the Trustee maintained a pool of 1,778,000 shares which are available for the Trustee to satisfy the Scheme upon their respective vesting or future grant.

During the years ended 31 December 2016 and 2015, no shares of the Company were granted, exercised or cancelled by the Company under the Scheme and there were no outstanding shares of the Company under the Scheme as at 31 December 2016 and 2015.

33. RETIREMENT BENEFIT PLANS

The employees employed in the PRC, Macau, Thailand, Malaysia, Italy, Indonesia and Taiwan are members of the state-managed retirement benefit schemes operated by the governments. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions under the schemes.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% or HK$1,500 in maximum (per employee per month) of relevant payroll costs to the scheme, which contribution is matched by employees.

The Group also participates in defined contribution retirement schemes organised by the relevant local government authorities in other jurisdictions where the group entities operates. Certain employees of the Group eligible for participating in the retirement schemes are entitled to retirement benefits from the schemes. The Group is required to make contributions to the retirement schemes up to time of retirement of the eligible employees, excluding those employees who resigned before their retirements, at a percentage that is specified by the local governments.

34. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

On 9 December 2015, the Group acquired 40% interest in the issued share capital of Couture Accessories Distribution Limited at a consideration of US$831,000. The carrying amounts of Couture Accessories Distribution Limited on the completion date of acquisition was approximately US$2,077,000. The Group recognised a decrease in non-controlling interests of approximately US$833,000 and an increase in equity attributable to the owners of the Company of approximately US$2,000.

35. RELATED PARTY DISCLOSURES

(I) Related party transactions

The Group had the following transactions with related parties during the year:

Name of company	Nature of transactions	2016 US$'000	2015 US$'000
Baodefu[1]	Purchase of footwear products	106,055	132,402
Couture Accessories[1]	Purchase of footwear products	657	351
	Sales of footwear products	306	1,178
Bay Footwear[2]	Purchase of footwear products	49,815	40,839

Notes:

[1] Associates of the Company.

[2] A joint venture of the Company.

(II) Grant of call option

Details of granting of call option are set out in note 24.

(III) Related party balances

Details of balances with related parties are set out in notes 22 and 23.

35. RELATED PARTY DISCLOSURES *(continued)*

(IV) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2016 US$'000	2015 US$'000
Short-term benefits	1,798	2,548
Post-employment benefits	4	4
	1,802	2,552

The remuneration of directors and the key executive is determined by the Board and its remuneration committee having regard to the performance of individual and market trends.

36. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

The statement of financial position of the Company as at 31 December 2016 is as follows:

	Note	2016 US$'000	2015 US$'000
Investments in subsidiaries		530,540	530,540
Amounts due from subsidiaries		314,635	319,428
Bank balances and cash		548	511
Other assets		280	280
Total Assets		846,003	850,759
Total Liabilities		1,372	16,409
Total Assets less Total Liabilities		844,631	834,350
Capital and Reserves			
Share capital		10,160	10,160
Share premium and reserves	*(a)*	834,471	824,190
Total equity		844,631	834,350

36. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(continued)*

Note:

(a) Reserves of the Company

	Share capital US$'000	Share premium US$'000	Capital reserve US$'000	Shares held for share award scheme US$'000	Capital redemption reserves US$'000	Share award reserve US$'000	Contribution surplus US$'000	Accumulated profits US$'000	Total US$'000
As at 1 January 2015	10,160	154,503	1,146	(2,722)	190	1,450	530,465	128,965	824,157
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	97,301	97,301
Dividend recognised as distribution	–	–	–	–	–	–	–	(87,108)	(87,108)
As at 31 December 2015	10,160	154,503	1,146	(2,722)	190	1,450	530,465	139,158	834,350
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	97,245	97,245
Dividend recognised as distribution	–	–	–	–	–	–	–	(86,964)	(86,964)
As at 31 December 2016	10,160	154,503	1,146	(2,722)	190	1,450	530,465	149,439	844,631

37. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the consolidated financial statements were as follows:

	2016 US$'000	2015 US$'000
Bank guarantees given in lieu of property rental deposits	129	–
	129	–

38. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries directly and indirectly held by the Company as at 31 December 2016 and 2015 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Class of share held	Issued and fully paid share capital/ registered capital	Proportion ownership interest held by the Company 2016		2015		Proportion of voting power held by the Company 2016		2015		Principal activities
				Direct %	Indirect %	Direct %	Indirect %	Direct %	Indirect %	Direct %	Indirect %	
Couture Accessories Distribution Limited	Hong Kong	Ordinary	US$4,000,000	–	100	–	100	–	100	–	100	Footwear retailing
P.T. Young Tree Industries	Indonesia	Ordinary	RP106,842,000,000[2]	–	100	–	100	–	100	–	100	Manufacturing of footwear
Stella Europe Trading Limited	Hong Kong	Ordinary	EUR100,000	–	60	–	60	–	60	–	60	Sourcing and distribution of footwear
Stella Footwear Inc.	BVI	Ordinary	US$3,947	–	100	–	100	–	100	–	100	Investment holding, manufacturing and sales of footwear
Stella Footwear (Sampaguita) Company Limited	BVI	Capital contribution	US$1	–	100	–	100	–	100	–	100	Manufacturing of footwear
Stella Fashion Group Limited	BVI	Ordinary	US$4	–	100	–	100	–	100	–	100	Investment holding and wholesaling of footwear
Stella Fashion Italia S.R.L.	Italy	Ordinary	EUR10,000	–	100	–	100	–	100	–	100	Sales and distribution of footwear
Stella Fashion SAS	France	Ordinary	EUR1,000,000	–	100	–	100	–	100	–	100	Footwear retailing
Stella International Design Service S.R.L.	Italy	Ordinary	EUR50,000	–	51	–	51	–	51	–	51	Footwear design
Stella International Limited	Vanuatu	Ordinary	US$1	100	–	100	–	100	–	100	–	Investment holding, manufacturing and sales of footwear
Stella International Marketing Company Limited	Malaysia	Ordinary	US$10,000	100	–	100	–	100	–	100	–	Marketing activities
Stella International Trading (Macao Commercial Offshore) Limited	Macau	Ordinary	MOP200,000	–	100	–	100	–	100	–	100	Sales of footwear
Stella Luna Sol Limited	Hong Kong	Ordinary	HK$1	–	100	–	100	–	100	–	100	Holding of intellectual property rights
Stella Romano Trading Limited	Taiwan	Capital contribution	NTD1,000,000	–	100	–	100	–	100	–	100	Sales of footwear
Stella Services Limited	Hong Kong	Ordinary	HK$300,000	100	–	100	–	100	–	100	–	Provision of secretary and accounting services
Stellaluna (Thailand) Co., Ltd.	Thailand	Ordinary	Baht20,000,000	–	70.1	–	70.1	–	70.1	–	70.1	Footwear retailing
郴州興昂鞋業有限公司[1] (Chenzhou Selena Footwear Company Limited)	The PRC	Capital contribution	US$1,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
上海高綽飾品貿易有限公司[1] (Couture Accessories Distribution (Shanghai) Limited)	The PRC	Capital contribution	US$4,000,000	–	100	–	100	–	100	–	100	Footwear retailing
東莞興昂鞋業有限公司[1] (Dongguan Stella Footwear Company Limited)	The PRC	Capital contribution	HK$191,810,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
洞口興雄鞋業有限公司[1] (Dongkou Selena Upper Company Limited)	The PRC	Capital contribution	US$10,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
廣西容縣興雄鞋面有限公司[1] (Guangxi Rong Yuan Selena Upper Company Limited)	The PRC	Capital contribution	US$3,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear

38. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(continued)*

Name of subsidiary	Place of incorporation/ establishment/ operation	Class of share held	Issued and fully paid share capital/ registered capital	Proportion ownership interest held by the Company 2016		2015		Proportion of voting power held by the Company 2016		2015		Principal activities
				Direct %	Indirect %	Direct %	Indirect %	Direct %	Indirect %	Direct %	Indirect %	
廣西興鵬鞋業有限公司(1) (Guangxi Shenandoah Footwear Company Limited)	The PRC	Capital contribution	US$10,000,000	–	100	–	100	–	100	–	100	Manufacturing o footwear
廣西興萊鞋業有限公司(1) (Guangxi Simona Footwear Company Limited)	The PRC	Capital contribution	US$10,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
廣西育祥鞋業有限公司(1) (Guangxi Yu Xiang Footwear Company Limited)	The PRC	Capital contribution	US$8,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
懷化興雄鞋業有限公司(1) (Huaihua Selena Footwear Company Limited)	The PRC	Capital contribution	RMB11,124,450(2)	–	100	–	100	–	100	–	100	Manufacturing of footwear
龍川興萊鞋業有限公司(1) (Long Chuan Simona Footwear Company Limited)	The PRC	Capital contribution	HK$220,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
隆回興昂鞋業有限公司(1) (Longhui Stella Footwear Company Limited)	The PRC	Capital contribution	US$25,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
隆回興隆鞋材有限公司(1) (Longhui Stella Footwear Company Limited)	The PRC	Capital contribution	RMB10,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
邵陽連泰鞋業有限公司(1) (Shaoyang Liantai Footwear Company Limited)	The PRC	Capital contribution	RMB163,800,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
邵陽縣興昂鞋業有限公司 (Shaoyang Yuan Stella Footwear Co., Ltd.)	The PRC	Capital contribution	RMB30,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
雙峰興昂鞋業有限公司(1) (Shuangfeng Stella Footwear Company Limited)	The PRC	Capital contribution	HK$135,280,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
興記時尚(中國)有限公司 (Stella Fashion (China) Limited)	The PRC	Capital contribution	RMB100,000,000	–	100	–	100	–	100	–	100	Footwear retailing
興記時尚貿易(上海)有限公司(1) (Stella Fashion Inc.	The PRC	Capital contribution	US$11,000,000	–	100	–	100	–	100	–	100	Footwear retailing
威縣遠達制鞋有限公司(1) (Wei County Yuanta Footwear Company Limited)	The PRC	Capital contribution	US$10,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
武宣興萊鞋業有限公司(1) (Weixian Simona Footwear Company Limited)	The PRC	Capital contribution	US$1,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
興業興萊鞋業有限公司(1) (Xingye Simona Footwear Company Limited)	The PRC	Capital contribution	US$4,400,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
新化興昂鞋業有限公司(1) (Xinhua Selena Footwear Company Limited)	The PRC	Capital contribution	US$2,000,000	–	100	–	100	–	100	–	100	Manufacturing of footwear
新寧興雄鞋業有限公司(1) (Xinning Selena Footwear Company Limited)	The PRC	Capital contribution	US$2,000,000 (2)	–	100	–	100	–	100	–	100	Manufacturing of footwear
永州興昂鞋業有限公司(1) (Yongzhou Selena Footwear Company Limited)	The PRC	Capital contribution	RMB6,300,000	–	100	–	100	–	100	–	100	Manufacturing of footwear

38. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(continued)*

Note:

(1) Wholly foreign-owned enterprises established in the PRC.

(2) The registered capital of this subsidiary was increased during the year.

None of the subsidiaries had issued any debt securities at the end of the reporting period or at any time during the years.

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in the BVI and in Hong Kong. The principal activities of these subsidiaries are summarised as follows:

Principal activities of business	Principal place	Number of subsidiaries	
		2016	2015
Investment holding	BVI	9	9
	Hong Kong	6	6
Footwear trading	BVI	–	2
	Hong Kong	1	–
Inactive	BVI	6	4
	Hong Kong	4	4
		26	25

The directors of the Company are of the opinion that none of the Group's subsidiaries has non-controlling interests as at 31 December 2016 that are individually material to the Group. Therefore, no further financial information in respect of these subsidiaries with non-controlling interests are presented.

39. EVENT AFTER THE REPORTING PERIOD

On 16 March 2017, the Company adopted a share award plan (the "Share Award Plan") pursuant to which shares of the Company may be awarded to selected eligible participants, including, among others, any employee of, non-executive director of, supplier of goods or services to, customer of, person or entity providing design, research, development or other technological support to, shareholder of, holder of any security issued by, and adviser or consultant in respect of any area of business or business development of any member of the Group or any entity in which any member of the Group holds any equity interest, and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group (collectively, the "Eligible Participants"). The Share Award Plan became effective immediately on 16 March 2017 and, unless otherwise terminated or amended, shall remain in force for 10 years from that date.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2012 US$'000	2013 US$'000	2014 US$'000	2015 US$'000	**2016** **US$'000**
RESULTS					
Revenue	1,550,003	1,541,471	1,663,091	1,769,852	**1,550,864**
Profit for the year	152,588	122,816	120,245	120,151	**81,214**
Attributable to:					
Equity owners of the Company	153,403	122,656	120,701	121,047	**81,577**
Non-controlling interests	(815)	160	(456)	(896)	**(363)**
	152,588	122,816	120,245	120,151	**81,214**

	As at 31 December				
	2012 US$'000	2013 US$'000	2014 US$'000	2015 US$'000	**2016** **US$'000**
ASSETS AND LIABILITIES					
Total assets	1,158,949	1,186,551	1,186,478	1,243,226	**1,172,516**
Total liabilities	(242,197)	(253,001)	(233,769)	(258,934)	**(194,659)**
Shareholders' funds	916,752	933,550	952,709	984,292	**977,857**

Note: The results for the two years ended 31 December 2015 and 2016, and the assets and liabilities as at 31 December 2015 and 2016 have been extracted from the audited consolidated statement of profit or loss and other comprehensive income and audited consolidated statement of financial position as set out on page 107 and pages 108 and 109, respectively, of the annual report.

CORPORATE INFORMATION AND FINANCIAL CALENDAR 2016/2017

BOARD OF DIRECTORS

Executive Directors

CHIANG Jeh-Chung, Jack, *Chairman*
CHAO Ming-Cheng, Eric, *Deputy Chairman*
CHEN Li-Ming, Lawrence, *Chief Executive Officer*
CHI Lo-Jen

Independent Non-Executive Directors

CHEN Johnny
BOLLIGER Peter
CHAN Fu Keung, William, *BBS*
YUE Chao-Tang, Thomas
LIAN Jie

AUDIT COMMITTEE

YUE Chao-Tang, Thomas, *Chairman*
CHEN Johnny
CHAN Fu Keung, William, *BBS*
LIAN Jie

CORPORATE GOVERNANCE COMMITTEE

BOLLIGER Peter, *Chairman*
CHAN Fu Keung, William, *BBS*
YUE Chao-Tang, Thomas

EXECUTIVE COMMITTEE

CHEN Li-Ming, Lawrence, *Chairman*
CHIANG Jeh-Chung, Jack
CHAO Ming-Cheng, Eric
CHI Lo-Jen

NOMINATION COMMITTEE

CHEN Johnny, *Chairman*
BOLLIGER Peter
CHAN Fu Keung, William, *BBS*
YUE Chao-Tang, Thomas
LIAN Jie

REMUNERATION COMMITTEE

CHAN Fu Keung, William, *BBS, Chairman*
CHEN Johnny
YUE Chao-Tang, Thomas

AUTHORISED REPRESENTATIVES

CHEN Li-Ming, Lawrence
KAN Siu Yim, Katie

CHIEF FINANCIAL OFFICER

LEE Kwok Ming, Don

COMPANY SECRETARY

KAN Siu Yim, Katie

LEGAL ADVISER

Chiu & Partners
40th Floor, Jardine House
1 Connaught Place, Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway, Hong Kong

PRINCIPAL BANKERS

Chinatrust Commercial Bank, Ltd.
The Hongkong and Shanghai Banking Corporation Limited
Citibank Taiwan Ltd.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG SHARE 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

REGISTERED OFFICE

Cricket Square, Hutchins Drive, P.O. Box 2681,
Grand Cayman KY1-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat C, 20/F, MG Tower,
133 Hoi Bun Road,
Kowloon, Hong Kong

STOCK CODE

1836

WEBSITE

www.stella.com.hk

FINANCIAL CALENDAR 2016/2017

2016 Interim Results Announcement	26 August 2016
Payment of Interim Dividend	14 October 2016
2016 Annual Results Announcement	16 March 2017
Closure of Register of Members	16 May 2017 to 19 May 2017
Annual General Meeting	19 May 2017
Payment of Final Dividend	On or about 28 June 2017
2017 Interim Results Announcement	On or about 17 August 2017

In the event of inconsistency, the English version shall prevail over the Chinese version.

This Annual Report is printed on environmentally friendly paper
from sustainably managed forests and controlled sources

Stella International Holdings Limited
九興控股有限公司*

Incorporated in the Cayman Islands with limited liability
於開曼群島註冊成立之有限公司

*for identification purpose only