



裕元工業(集團)有限公司
Yue Yuen Industrial (Holdings) Limited

Incorporated in Bermuda with limited liability
於百慕達註冊成立之有限公司

Stock Code 股份代號 : 551

Our Mission

To be the best sports gears producer and distributor. We build value for our customers, employees, investors, suppliers and communities by constantly providing world class products, services and solutions; and by leading as a socially and environmentally responsible corporate citizen.





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Corporate Overview

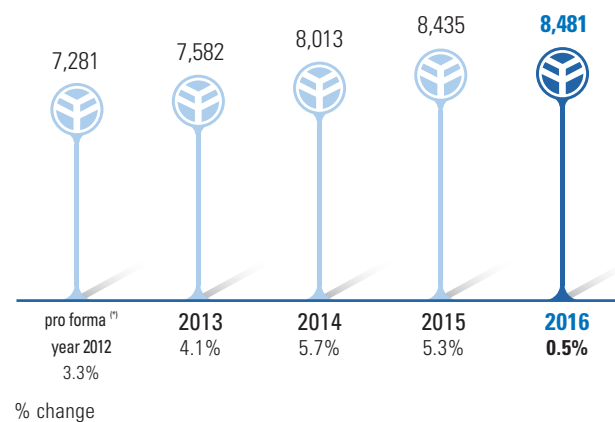
Financial and Operating Highlights for the year ended December 31, 2016 with the comparative figures for the year ended December 31, 2015

(US\$ millions, except where otherwise stated)	2016	2015	% Change
Total Production Volume (million pairs)	322.0	317.5	1.4
Revenue	8,480.6	8,434.9	0.5
Profit attributable to Owners of the Company	534.6	390.2	37.0
Recurring Profit attributable to Owners of the Company	525.1	405.5	29.5
Total Assets	7,611.8	7,264.5	4.8
Capital Expenditure	452.0	444.9	1.6
EBITDA	855.3	682.8	25.3
Basic Earnings Per Share (US cents)	32.47	23.70	37.0
Dividend Per Share			
Interim	HK\$0.40	HK\$0.40	–
Final	(proposed) HK\$1.00	HK\$0.80	25.0
Full Year	(proposed) HK\$1.40	HK\$1.20	16.7
Total Equity	5,094.0	4,866.2	4.7
Return on Equity (% per annum)	11.3	8.7	29.9
Gearing Ratio (%)	18.8	16.5	13.9
Net Debt to Equity Ratio (%)	N/A	N/A	N/A
Number of Outstanding Issued Shares	1,648,928,486	1,648,928,486	–

Key Shareholder Value Indices

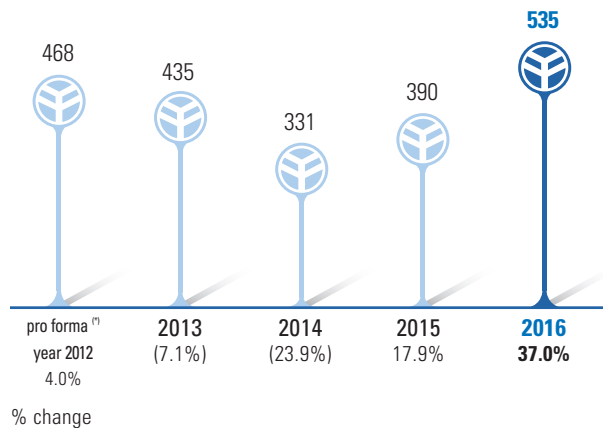
Revenue

US\$ million



Profit Attributable to Owners of the Company

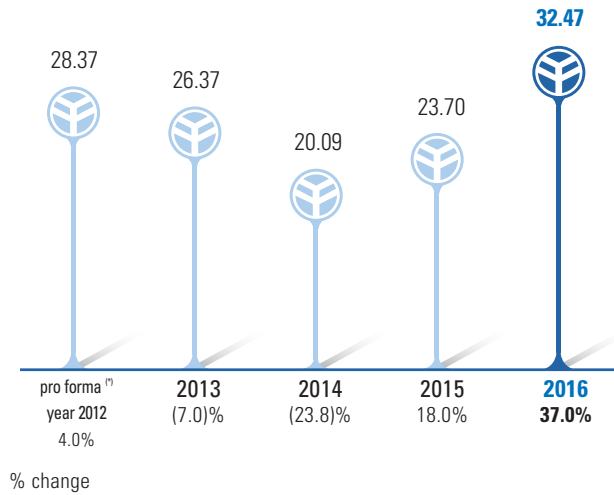
US\$ million





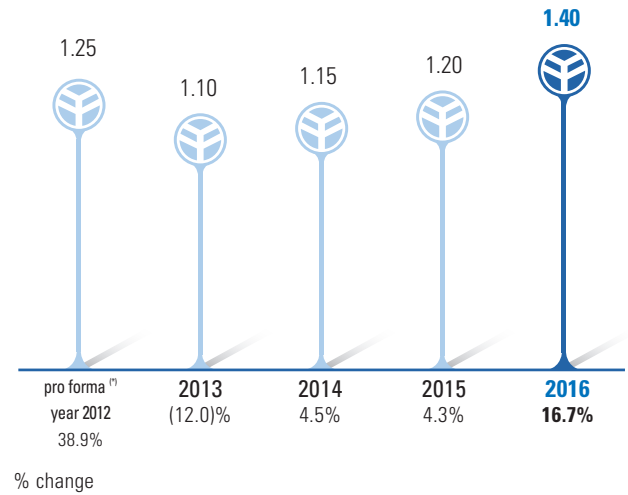
Earnings Per Share

US cents



Dividend Per Share

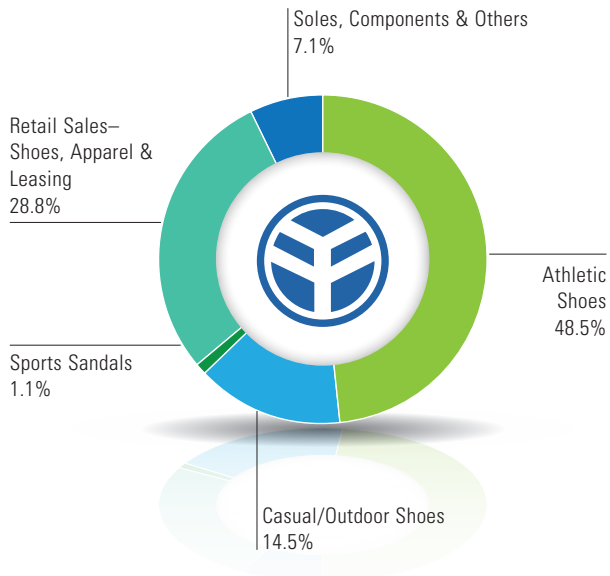
HK\$



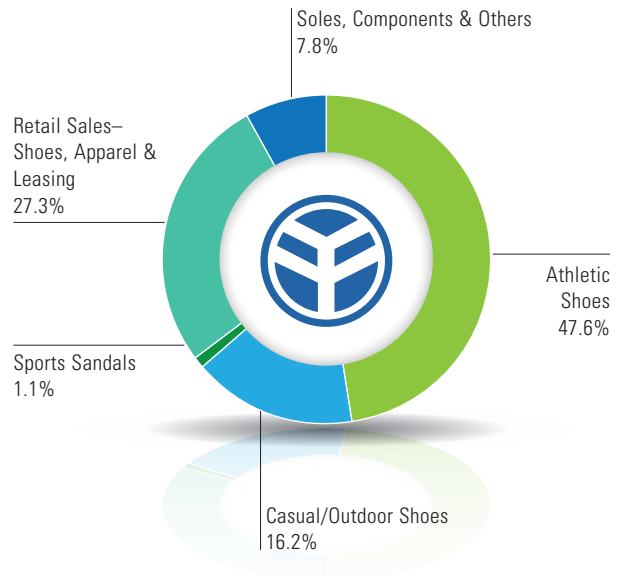
(*) Pro forma year 2012 represents the fiscal period for the fifteen months ended December 31, 2012.

Product Category for the year ended December 31, 2016 with the comparative figures for the year ended December 31, 2015

2016 Revenue by Product Category



2015 Revenue by Product Category





Corporate Information

Executive Directors

Lu Chin Chu (*Chairman*)
Tsai Pei Chun, Patty⁵ (*Managing Director*)
Kuo Tai Yu (*retired on March 2, 2016*)
Chan Lu Min
Lin Cheng-Tien
Lee Shao Wu (*resigned on February 6, 2017*)
Tsai Ming-Lun, Ming
Hu Chia-Ho
Liu George Hong-Chih
Hu Dien Chien (*appointed on March 24, 2017*)

Independent Non-Executive Directors

Leung Yee Sik^{1, 2, 3, 4}
Huang Ming Fu^{1, 3, 5, 6}
Chu Li-Sheng^{1, 3, 5}
Yen Mun-Gie (*also known as Teresa Yen*)^{1, 3, 5}
Hsieh Yung Hsiang (*also known as Alfred Hsieh*)^{1, 3}

Notes:

1. Member of audit committee
2. Chairman of audit committee
3. Member of remuneration committee
4. Chairman of remuneration committee
5. Member of nomination committee
6. Chairman of nomination committee

Company Secretary

Ng Yuk Yee, Feona (*appointed on March 23, 2016*)
Chau Chi Ming (*resigned on March 23, 2016*)

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Place of Business

22nd Floor, C-Bons International Center
108 Wai Yip Street
Kwun Tong, Kowloon, Hong Kong

Auditor

Deloitte Touche Tohmatsu

Principal Share Registrar and Transfer Office

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

- Bank of America Merrill Lynch
- Bank of Singapore
- Bank SinoPac
- BNP Paribas
- Cathay Bank
- China Construction Bank (Asia) Corporation Ltd.
- CTBC Bank
- Citibank, N.A.
- China Citic Bank International Ltd.
- Credit Agricole Corporate & Investment Bank
- DBS Bank Ltd.
- Mizuho Bank Ltd.
- Scotiabank (Hong Kong) Limited
- Standard Chartered Bank (Hong Kong) Limited
- Sumitomo Mitsui Banking Corporation
- Taipei Fubon Commercial Bank Co., Ltd.
- The Bank of Tokyo-Mitsubishi UFJ, Ltd.
- The Hongkong and Shanghai Banking Corporation Limited
- United Overseas Bank Ltd.

Solicitors

Reed Smith Richards Butler

Website

www.yueyuen.com

Stock Code: 00551





Chairman's Statement

LOOKING FOR SUSTAINABLE GROWTH

Dear Shareholders,

I am pleased to present the annual results of Yue Yuen Industrial (Holdings) Limited (the "Company" and together with its subsidiaries, the "Group") for the financial year ended December 31, 2016 to the shareholders of the Company (the "Shareholders").

In 2016, the global economic environment stabilized but our business continued to face many uncertainties. The repercussions of subdued economic activity from the previous years lingered on, economic growth in the United States decelerated, and growth in Europe expanded at a slower pace. Overall consumer sentiment in the US and some parts of the EU has recovered, yet this was overshadowed by geopolitical uncertainties around international trade due to Brexit and rhetoric concerning policies of the new Trump regime in the US. China economy growth continued to decelerate, as it shifts orientation from export and investment to domestic consumption. Facing these challenges, we continued to deliver superior results with both our manufacturing and China retail businesses.

The operating environment for our manufacturing business remained challenging in 2016. Many factors continued to affect our manufacturing business, namely rising cost structure, more rigid government policies, and a surge in minimum wages across countries. Facing these challenges, we continued to rebalance and optimize our production capacities in different countries. Besides, we have put more strategic emphasis on transforming our business focus from 'economies of scale' to 'economies of value', introducing more innovative services and solutions as well as further integrating our supply chain. This has enhanced our competitiveness and value proposition. Despite the challenging environment, the Group produced 322.0 million pairs of shoes in 2016, a 1.4% growth year on year.

Pou Sheng International (Holdings) Limited ("Pou Sheng"), our sport-wear retail business in China continued to see a turn-around during 2016 under the auspice of high-profile international sports events such as the 2016 UEFA European Championship and the Rio Olympics, as well as growing consumer awareness around personal fitness. The consumption trend in China continued to gear towards athleisure and performance sportswear, with an emphasis on wellness and a healthy lifestyle. Moreover, consumer spending on sportswear and sport related activities is expected to grow further on the back of favorable government policies and initiatives announced in 2016, such as the National Fitness Program (2016-2020) and the Health China Outline (2030), aiming to support the sports industry and drive consumption towards sporting activities.

As major international athletic and performance brands continue to actively explore opportunities and establish their brand presence in China, Pou Sheng continued to partner with leading global brands to navigate the complex domestic retail environment and to actively engage with Chinese consumers. It also further focused on building the core competencies of its omni-channels, as well as diversifying its product offerings to attract a broader consumer base. As of the end of 2016, Pou Sheng had 5,560 directly operated stores/counters and 3,199 stores operated by sub-distributors in China.



Chairman's Statement

The consolidated revenue of the Group increased by 0.5% to US\$8.5 billion, compared to US\$8.4 billion recorded in the financial year 2015. The profit attributable to owners of the Company increased 37.0% to US\$534.6 million, compared to US\$390.2 million earned in year 2015. The rise in net profit was mainly due to operational efficiency improvements in both the footwear manufacturing and retail businesses. Pou Sheng achieved sales of US\$2,443.7 million, an increase of 6.2% compared to the previous financial year. In 2016, Pou Sheng generated profit attributable to owners of US\$88.4 million, an 37.1% improvement when compared to the previous financial year which had a net profit of US\$64.5 million. The improvement in Pou Sheng's performance reflects the resilient demand for sportswear in China, as well as continuous improvements in its store efficiency.

The Asia region continued to account for the majority of the Group's sales for both its manufacturing and retail activities, contributing a total of 48.7%. The US and Europe markets accounted for 24.7% and 19.8% of the Group's sales respectively. The rest of the world accounted for the remaining 6.8%.

The Group's associates and joint ventures contributed a combined profit of US\$66.8 million, compared to a contribution of profit of US\$82.2 million in 2015.

Looking ahead, the Group will closely monitor changes to geopolitical and trade policies that may impact the industry value chain globally. To ensure manufacturing efficiency, we will continue to maintain flexibility and explore options to deal with any potential changes within the Group's manufacturing supply chain. The Group will continue to invest in new technologies that can offer enhanced solutions for our brand customers, in areas such as automation, innovative materials and manufacturing processes. The ability to provide a full range of services and solutions, from design, manufacturing and retail distribution across Greater China, will further enable the Group to expand its strategic partnerships with brand customers who are increasingly looking to expand their presence to capture opportunities arising from growing consumer spending on health and fitness globally.

For the retail business, our mission remains to offer our customers with more expertise and better sports experiences at higher efficiency. Our strategy focuses on expanding our omni-channels in first and second tier cities, distributing a more diverse range of brands and products such as kids wear, as well as delivering tailored sports-related experiences and promotions.

The Group aims to better serve the changing preferences of Chinese consumers, particularly for international athleisure and functional footwear and apparel. We are also optimistic about the long-term prospects of the sportswear industry in China as a result of the government's ongoing promotion of sports and growing self-awareness about health and fitness among consumers.



Just as sport is essential for maintaining a healthy body, we believe that sustainable development is a requirement for a healthy business. We share the same values as our brand customers, including a commitment to maintaining an ethical and responsible supply chain. We are also committed to cultivating corporate social responsibility and integrity within the Group's fundamental principles and core values. We will focus on fulfilling our sustainable development strategy by complying with labor protections, occupational health and work safety regulations, and green manufacturing, while providing training and talent development to fulfill our corporate social responsibilities.

On behalf of the board of directors of the Company (the "Board"), I wish to thank our customers, suppliers, business associates and shareholders for their support. I would also like to offer special thanks to our staff for their invaluable service and contributions throughout the year.

Lu Chin Chu
Chairman

Hong Kong
March 24, 2017



Management Discussion and Analysis

BUILD VALUE FOR OUR STAKEHOLDERS

RESULTS

For the financial year ended December 31, 2016, the Group recorded revenue of US\$8,480.6 million, representing a growth of 0.5% compared to the financial year in 2015. Profit attributable to owners of the Company increased by 37.0% to US\$534.6 million, as compared with US\$390.2 million recorded for the financial year in 2015. In 2016, basic earnings per share grew by 37.0% to 32.47 US cents as compared with 23.70 US cents for the financial year in 2015.

Recurring Profit Attributable to Owners of the Company

Excluding all items of non-recurring operating in nature, the recurring profit for the year ended December 31, 2016, increased by 29.5% to US\$525.1 million, compared to the recurring profit of US\$405.5 million for the financial year in 2015. For the financial year 2016, the non-recurring profit amounted to US\$9.4 million, which included recognition of US\$11.5 million gains on fair value changes on derivatives financial instruments, as well as a US\$4.5 million impairment loss on amounts due from joint ventures. For the year ended December 31, 2015, profit attributable to owners of the Company included a non-recurring loss of US\$15.3 million.

OPERATIONS

General Overview

The Group is involved in two businesses focusing on sport fitness and lifestyle. The Group is currently the largest manufacturer of athletic and casual/outdoor footwear for leading international brand companies around the world. It also operates one of the largest retail networks of footwear and apparel across the Greater China region, which continues to be a key growth market for major leading international sporting and lifestyle brands.

The key objective of the Group's manufacturing business is to strive and become a close partner with leading brand name customers. This would enable the Group to forge long-term relationships and support the product design, development and manufacturing needs of its customers. The Group strives to provide an advanced level of support and innovative solutions to enable its customer to focus on building their portfolio and promoting their brands.



Management Discussion and Analysis

Please refer to the annual report of Pou Sheng, a listed subsidiary of the Company, for a more detailed explanation of the business model for the Group's retail business.

All of the Group's business units abide to the Group's principles on sustainable development, ethical conduct and values. Each business unit considers the interests of all stakeholders in the business, including employees and surrounding community, when making important business decisions. The Group manages and monitors these business units with sustainable development targets, including in the areas of labor management, workplace safety and the efficient use of raw materials, energy, as well as environmental management. For more details on the Group's sustainable development strategy and reporting on Environmental, Social and Governance ("ESG"), please refer to the Group's ESG report for 2016.

Total Revenue by Product Category

The revenue for the footwear manufacturing business declined by 1.6% in 2016 when compared to revenue recorded in the financial year 2015, whereas the production volume grew by 1.4% as compared with the same period in 2015. The growth in volume was offset by a fall in average selling prices. Gross profit for the manufacturing business improved, attributable mainly to better operational efficiency, while rising wages were partly offset by lower material costs tied to the commodity and oil price trend. The Group continued to work with international brand customers to enhance productivity across production sites and efficiency in its supply chain. For the financial year 2016, Vietnam, Indonesia and China continued to be the Group's main production locations by volume, representing 44%, 34% and 20% of our total shoe production respectively.

In term of total revenue by product category, athletic shoes accounted for 48.5% of revenue, followed by casual/outdoor shoes, which accounted for 14.5%. When considering manufacturing revenue by footwear only, athletic shoes still represented the principal category, accounting for 75.6% of footwear manufacturing revenue, followed by casual/outdoor shoes, which accounted for 22.6% of total footwear manufacturing revenue. The Group is putting more strategic emphasis on transforming its business model from offering 'economies of scale' and expertise in footwear manufacturing to 'economies of value'. With the introduction of innovative services and solutions, and integrating the supply chain process, the Group strives to provide brand customers enhanced value proposition, and better meet their changing demands and interests.

Retail sales are derived primarily from retail operations in the PRC, involving the sale of international brand-name athletic footwear and apparel in major cities. The revenue for Pou Sheng, the Group's retail business, grew by 6.2% in 2016 to US\$2,443.7 million when compared to revenue of US\$2,300.2 million for the financial year 2015. Pou Sheng has adopted RMB as its reporting currency from USD since its 2016 interim results in order to reduce the impact of foreign exchanges rate movements on its reported results and to provide shareholders with an accurate reflection of the Group's retail business underlying performance. In RMB terms, Pou Sheng's revenue increased by 12.2% to RMB16,236 million, compared to RMB14,466 million in the same period last year. As of December 31, 2016, the Group had 5,560 directly operated counters/stores and 3,199 stores operated by sub-distributors in the PRC. Pou Sheng had a gross profit improvement of 13.3% to US\$868.2 million (or in RMB terms, 19.7% to RMB5,768.4 million) due to the stronger retail demand and the fewer discounting activities. Despite slowing overall GDP growth in the PRC, which recorded 6.5% year-on-year growth in 2016, the operating environment for the sportswear retail business was robust. Pou Sheng's management remains optimistic and plans to further expand the size and diversity of its store network, which led to an increase in aggregate operating costs when compared to that in 2015.



Total Revenue by Product Category

	For the year ended December 31,				
	2016		2015		% change
	US\$ millions	%	US\$ millions	%	
Athletic Shoes	4,110.3	48.5	4,015.9	47.6	2.4
Casual/Outdoor Shoes	1,230.7	14.5	1,365.9	16.2	(9.9)
Sports Sandals	93.8	1.1	94.4	1.1	(0.6)
Retail Sales – Shoes, Apparel & Leasing	2,441.2	28.8	2,298.2	27.3	6.2
Soles, Components & Others	604.6	7.1	660.5	7.8	(8.5)
Total Revenue	8,480.6	100.0	8,434.9	100.0	0.5

Orders from international brands are received by the sales departments that manage each customer and normally take about ten to twelve weeks to fill.

Orders for the Group's retail business in the Greater China region, are taken on a daily basis or at periodic intervals from sub-distributors.

Production Review

During the year under review, the Group's manufacturing business produced a total of 322.0 million pairs of shoes, compared to 317.5 million pairs for the year ended December 31, 2015. The average selling prices for each pair of shoes declined to US\$16.88, compared to US\$17.25 for the year ended December 31, 2015.

Cost Review

With respect to the footwear manufacturing operations, revenue in 2016 amounted to US\$6.0 billion (2015: US\$6.1 billion) whereas the direct labor costs were US\$1.2 billion (2015: US\$1.1 billion). Total main material costs were US\$2.3 billion (2015: US\$2.6 billion) and total production overheads amounted to US\$1.3 billion (2015: US\$1.2 billion).

For Pou Sheng, revenue in 2016 amounted to US\$2.4 billion (2015: US\$2.3 billion). Retail stock costs were US\$1.6 billion (2015: US\$1.5 billion).

For the Group, selling and distribution expenses for the year were US\$834.6 million (2015: US\$777.8 million), equivalent to approximately 9.8% (2015: 9.2%) of revenue. The increase in selling and distribution expenses was attributable mainly to the increased number of directly operated stores for Pou Sheng. Administrative expenses for the year were US\$611.1 million (2015: US\$682.2 million), equivalent to approximately 7.2% (2015: 8.1%) of revenue. The decrease in administrative expenses was attributable mainly to decrease in employee related provisions. Since cost pressures continue to be significant for both the manufacturing and retail businesses, the management of both units will continuously look for ways to improve efficiency and productivity.



Management Discussion and Analysis

Product Development

During the year under review, the Group spent US\$166.3 million (2015: US\$157.1 million) on product development. The product development expenses included items such as sample development, preparation work for technical development packages, and production efficiency enhancement. For each of the major brand name customers that have a research/development team, a parallel independent product development center exists within the Group to look after the said research/development team. Besides this product development work, the Group also cooperates with its customers to seek improvements in production lead times and develop new techniques to produce high-quality footwear, as well as the innovation and incorporation of environmentally friendly materials into footwear design, development and manufacturing.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group's financial position remained solid. As at December 31, 2016, the Group had cash and cash equivalents of US\$1,042.8 million (2015: US\$1,031.4 million) and total bank borrowings were US\$960.1 million (2015: US\$803.2 million). The Group's gearing ratio (total borrowings to total equity) was 18.8% (2015: 16.5%). As of December 31, 2016, the Group had net cash amounting to US\$82.8 million (2015: net cash US\$228.2 million), which reflects the use of funds for Pou Sheng on new store openings. The Group uses structured forward contracts for currency hedging purposes.

Capital Expenditure

During the year under review, the capital expenditure of the Group was US\$452.0 million, for the manufacturing and retail businesses were US\$374.4 million (2015: US\$398.1 million) and US\$78.0 million (2015: US\$46.8 million) respectively.

The capital expenditure for the fiscal year 2017 will include capacity expansion and maintenance in locations, including Vietnam and Indonesia, as well as the R&D for the Group's product development and process re-engineering, which will be funded primarily by internal resources.

Contingent Liabilities

The Group had provided guarantees to banks in respect of banking facilities granted to joint ventures and associates. The details of which can be seen in note 45 to the consolidated annual financial information.

Significant Investments Held and Performance

During the review period in 2016, the share of results from associates and joint ventures was a combined profit of US\$66.8 million, compared to a combined profit of US\$82.2 million for last year. The decrease was mainly attributable to impairment loss recognized on certain assets of the joint ventures during the period in 2016 and the disposal of equity interests in Symphony Holdings Limited that contributed profit for 2015.

Dividends

A final dividend of HK\$1.00 per share for the year ended December 31, 2016 (2015: HK\$0.80 per share) has been recommended, amounting to a dividend per share for the year of HK\$1.40 (2015: HK\$1.20).

The Group's operating cash flow remains strong, and a suitable level of cash holdings will be maintained. The Group's commitment to upholding steady dividend growth over time remains intact. The dividend payout ratio for the year 2016 was 55.7% (2015: 65.4%)



Foreign Exchange Exposure

All revenue from footwear manufacturing for international brands are denominated in US dollars. The majority of material and component costs are paid in US dollars. Expenses incurred locally are paid for in the local currency i.e. wages, utilities and local regulatory fees. A small portion of RMB exposure is hedged with forward contracts and structured contracts.

For the retail business in the PRC, all revenues are denominated in RMB. Correspondingly, all expenses are also denominated in RMB. For the retail business outside the PRC, both revenues and expenses are denominated in local currencies.

Goodwill and Intangible Assets

The goodwill and intangible assets recorded on the Group's Consolidated Statement of Financial Position are the result of previous acquisitions of businesses in the retail and manufacturing industries.

Employees

As at December 31, 2016, the Group had approximately 355,000 employees across the regions globally. The Group adopts a remuneration system based on an employee's performance throughout the period and prevailing salary levels in the market.

PROSPECTS

The manufacturing business continued to face many uncertainties and challenges stemming from the operating environment. Subdued and uneven economic activity continued to affect demand in major markets across the US, EU and Asia, with growth in China and Western European countries expanding at a modest pace, while economic recovery in the US decelerated compared to the previous year. In the face of the rising cost structure, stricter government policies and a surge in minimum wages – which has affected many traditional supply chains – the Group continued to provide solutions to our brand customers to help them manage input cost, diversify production and risk management.

Changes in the geopolitical and operating environment will require the management to quickly adapt and explore variable options available to maintain efficiency and quality. The Group is committed to investing in programs to further optimize supply chain integration and manufacturing excellence to improve quality and efficiency in production, as well as to align with the ESG requirements of our brand customers and indirectly with end consumers. The ability to bring new technological manufacturing process and innovative materials to brand customers is essential for establishing strategic partnerships with them. The rebalancing and optimization of production capacity across different countries remains a top priority.

The retail business unit will continue to enhance its omni-channel strategy and efficiency in inventory management so that it will be a key partner to the brands to which it distributes and so it can continue to benefit from consumer spending on functional footwear and apparel in China.



Biographical Details of Directors and Senior Management

TREASURE AND TALENTS CONNECT PEOPLE

Executive Directors

Mr. Lu Chin Chu, aged 63, has been an executive director and the chairman of the Company since March 26, 2014. Mr. Lu was an executive director of the Company from February 15, 1996 to March 4, 2011. He joined Pou Chen Corporation (“PCC”), being listed on the Taiwan Stock Exchange (“TSE”) in 1977. He is the president of the real estate department of the Group and in charge of the management of the real estate. He is a director of certain subsidiaries of the Company. Mr. Lu is also the president and a director of PCC and he is involved primarily in board level and strategic issues. He is also a director of Wealthplus Holdings Limited (“Wealthplus”), a wholly-owned subsidiary of PCC. Both PCC and Wealthplus are companies having interests in the shares of the Company which would need to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (“SFO”). Mr. Lu has over 39 years of experience in the manufacturing of footwear and footwear materials, and is a college graduate. Mr. Lu was a non-executive director of Luen Thai Holdings Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited (“Stock Exchange”), from September 17, 2007 to February 15, 2017. He is a director of San Fang Chemical Industry Co., Ltd. (“San Fang”) and Evermore Chemical Industry Co., Ltd. (“Evermore”), both companies being listed on the TSE. Mr. Lu is

involved in board level activities and is not engaged in the day-to-day management of San Fang and Evermore.

Ms. Tsai Pei Chun, Patty, aged 37, has been the managing director of the Company since June 28, 2013. She graduated from the Wharton School of the University of Pennsylvania in May 2002 with a Bachelor of Science Degree in Economics with a concentration in Finance and a College Minor in Psychology. She joined the Group in 2002 and serves as an executive director of the Company from 2005 with focus on the Group’s strategic planning and enterprise developments. Ms. Tsai currently also serves as a non-executive director of Pou Sheng, a non wholly-owned subsidiary of the Company, whose shares are listed on the main board of the Stock Exchange. She is also a director of PCC and Wealthplus. Both PCC and Wealthplus are companies having interests in the shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO. She previously served as a board director of Mega Financial Holding Company Limited, a company listed on the TSE. Ms. Tsai is a daughter of Mr. Tsai Chi Jui, who is a deemed substantial shareholder of the Company within the meaning of Part XV of the SFO. Ms. Tsai is a cousin of Mr. Tsai Ming-Lun, Ming, who is an executive director of the Company.



Biographical Details of Directors and Senior Management

Mr. Chan Lu Min, aged 62, joined the Group in 2001. He is the chairman of PCC and the president of administration management department and in charge of finance and accounting. Mr. Chan was appointed as an executive director of the Company on March 7, 2001. He has 36 years of finance and accounting experience in Taiwan. Mr. Chan is a graduate of Chung Hsing University in Taiwan. Mr. Chan is also a director of Wealthplus and certain subsidiaries of the Company. Both PCC and Wealthplus are companies having interests in the shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO. Mr. Chan was a director of Symphony Holdings Limited ("Symphony"), a company listed on the main board of the Stock Exchange, from June 28, 2002 to September 1, 2013.

Mr. Lin Cheng-Tien, aged 57, graduated from South Fields College, United Kingdom majoring in shoe manufacturing. He joined the Group in 1990 and is a senior executive vice president of the Group responsible for the production, sales and marketing of certain footwear brand customers of the Group. He was the head of a business unit of the Group and is the head of an Academy of the Group. Mr. Lin was appointed as an executive director of the Company on March 20, 2015. He is also a director of certain subsidiaries of the Company. Mr. Lin has more than 26 years of experience in the footwear sector. Prior to joining the Group, Mr. Lin had worked with a renowned footwear manufacturing company in Taiwan responsible for the business and development of different brands.

Mr. Lee Shao Wu, aged 53, holds a Master of International Enterprise Administration Degree granted by China Culture University, Taiwan and a Bachelor of Mechanical Engineering Degree granted by Central University. Before joining the Group, Mr. Lee was the managing director of Barits Securities (HK) Ltd. Mr. Lee joined the Company as Head of Strategic Investment Planning Department and was appointed as an executive director of the Company in January 2011. He has resigned as an executive director of the Company and also as a director of certain subsidiaries of the Company on February 6, 2017 and became the executive director and acting chief executive officer of Pou Sheng on the same day. He was redesignated as an executive director and chief executive officer of Pou Sheng on March 24, 2017.

Mr. Tsai Ming-Lun, Ming, aged 39, holds a Bachelor's Degree of Science from National Taiwan University. He graduated from Harvard University in 2004 and holds a Master's Degree in Design Studies with Major in Project Management. Mr. Tsai is specialized in factory management and is responsible for business development and production operation of major customers, and the sourcing of certain footwear materials. Mr. Tsai has served the Group since 2005 and was appointed as an executive director of the Company on June 28, 2013. He is also a director of PCC and Wealthplus. Both PCC and Wealthplus are companies having interests in the shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO. He is also a director of certain subsidiaries of the Company. Mr. Tsai is a cousin of Ms. Tsai Pei Chun, Patty, the managing director and an executive director of the Company. Mr. Tsai is a nephew of Mr. Tsai Chi Jui, who is a deemed substantial shareholder of the Company within the meaning of Part XV of the SFO.



Mr. Hu Chia-Ho, aged 48, graduated from the University of Wisconsin, Madison, the United States of America with a Master's degree of Science. He joined PCC in 1997 and is the head of the Human Resources Department of PCC. Mr. Hu was appointed as an executive director of the Company on March 20, 2015. He has extensive experiences in human resources management and business development. Prior to joining PCC, Mr. Hu had worked with Citibank Taiwan and was responsible for corporate financing and the related businesses.

Mr. Liu George Hong-Chih, aged 44, holds a Master of Business Administration Degree in Finance and Entrepreneurial Management from The Wharton School of University of Pennsylvania and Bachelor of Arts Degree in Economics and International Studies from Yale University. Mr. Liu worked as a management consultant with Bain & Company in the U.S. and Beijing, China, after graduating from the university. Mr. Liu was with Morgan Stanley from 2000 to 2010 with primary responsibility in deal origination and execution and client coverage in Greater China. Mr. Liu last held the position of executive director with Morgan Stanley. In June 2010, Mr. Liu joined China International Capital Corporation as managing director and head of Hong Kong Investment Banking Department. Mr. Liu joined the Company on April 29, 2013 and was appointed as an executive director of the Company on June 28, 2013. He is a vice president of the Group responsible for the business development and production management of certain major brands. He is also a director of certain subsidiaries of the Company. Mr. Liu was also a non-executive director of Symphony from August 20, 2014 to June 1, 2015.

Mr. Hu Dien Chien, aged 37, holds a Master of Business Administration Degree in Finance and Accounting from New York University Leonard N. Stern School of Business and Bachelor of Business Administration Degree in Finance from National Taiwan University. Mr. Hu worked as a Business Analyst in Deutsche Asset Management in Taiwan after graduating from the university and then Research Associate in CLSA Asia Pacific Markets covering the telecom and petrochemical sectors in Taiwan. After business school, Mr. Hu joined Goldman Sachs (Asia) L.L.C. in Hong Kong from 2006 to 2014, where he was responsible for leading strategic/capital market services including business origination and execution for a variety of corporate clients in Greater China. Mr. Hu last held the position of executive director with Goldman Sachs. In 2014, Mr. Hu joined an electric vehicle company in Taiwan as chief financial officer. Mr. Hu was an independent director of United Advertising Co., Ltd., a company listed on the Emerging Stock Market in Taiwan, from June 22, 2016 to December 31, 2016. Mr. Hu joined the Company on November 21, 2016 as Chief Financial Officer and was appointed as an executive director of the Company on March 24, 2017. He is also a director of certain subsidiaries of the Company.



Biographical Details of Directors and Senior Management

Independent Non-executive Directors

Mr. Leung Yee Sik, aged 55, graduated from the Hong Kong Polytechnic University and is a fellow member of the Association of Chartered Certified Accountants and an associate member of both the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. Mr. Leung was appointed as an independent non-executive director of the Company in January 2009. He had worked with KPMG and BDO Limited and is currently a partner of an accounting firm in Hong Kong.

Mr. Huang Ming Fu, aged 76, graduated from Soochow University in Taiwan in 1964. Mr. Huang was appointed as an independent non-executive director of the Company in March 2010. He worked for Formosa Plastics Corporation in Taiwan from 1966 to 1994. He then joined Chailease Finance Co. Ltd. until 2008 and he was the chairman of IBT Management Corp. until October 2010, an affiliate of Industrial Bank of Taiwan. Mr. Huang is also an independent director of two companies listed on the TSE, namely Alpha Networks Inc. and Solartech Energy Corp. He was appointed as a supervisor of San Fu Chemical Co. Ltd. in October 2012, a company listed on the TSE.

Mr. Chu Li-Sheng, aged 48, holds a Bachelor's Degree in Business Administration from Tatung University and Master's Degree in Business Administration from National Taiwan University. Mr. Chu was appointed as an independent non-executive director of the Company in June 2011. Mr. Chu is an independent director of Wellpool Co., Ltd., a company listed on OTC market in Taiwan, a lecturer in the Department of Business Administration at Asia University, and a supervisor of Trade-Van Information Services Co., a company listed on the TSE. Mr. Chu was a supervisor of Global Life Insurance Co., Ltd. from July 2012 to December 2013. Mr. Chu was appointed as an independent director of PharmaEngine, Inc. in June 2013, a company listed on OTC market in Taiwan.

Ms. Yen Mun-Gie (also known as Teresa Yen), aged 47, holds an undergraduate degree from University of California at Berkeley and a Master's Degree in Business Administration from University of Southern California, Marshall School of Business. Ms. Yen was appointed as an independent non-executive director of the Company in November 2012. Ms. Yen was a non-executive director of HKC (Holdings) Limited, a company listed on the main board of the Stock Exchange, between October 3, 2007 and May 8, 2015. She is a managing partner of Radiant Capital ("Radiant"), a Northeast Asia focused real estate investment firm. Prior to Radiant, she had been a senior advisor to Cerberus Asia Capital Management, LLC., for 12 years. She worked with KPMG real estate consulting, Sumitomo Bank, Long-Term Credit Bank of Japan and Heller Financial.

Mr. Hsieh Yung Hsiang (also known as Alfred Hsieh), aged 67, holds a Bachelor's degree in Business Administration from National Taiwan University and a Master's degree in Business Administration from National Cheng-chi University in Taiwan. Mr. Hsieh was appointed as an independent non-executive director of the Company in March 2014. Mr. Hsieh commenced his career in corporate banking in 1975. He acted as the chief financial officer of Great Electric Co., Ltd. from 1987 to 1991. He was the managing director of Hanlink Capital Ltd. from 1994 to 2008. He took up the role of independent director of First Sino Bank from November 2008 to December 2013. He was the supervisor of Young Optics Inc. ("Young Optics"), a company listed on the TSE, from 2006 to 2012 and was a director of Young Optics from June 13, 2012 to June 10, 2015. Mr. Hsieh is an independent director of Wistron Information Technology & Services Corporation, a company listed on the Gre Tai Securities Market in Taiwan, since November 2011.



Senior Management

Mr. Chang Chia Li, aged 59, joined the Group in 1997 and is a vice president of the Group in charge of the management of global supply chain. He is also a director of certain subsidiaries of the Company. He is a college graduate and has 20 years of experience in the footwear business.

Mr. Hsiao Tsai Yuan, aged 58, joined the Group in 1981 and is a vice president of the Group in charge of the business development and production of certain major brands. He is also a director of certain subsidiaries of the Company.

Mr. Lee Cheng Chuan, aged 53, joined the Group in 1989 and is a vice president of the Group in charge of business development and production management of apparel business. He is also a director of certain subsidiaries of the Company. He graduated from National Taipei University of Technology. Mr. Lee has been an executive director of Eagle Nice (International) Holdings Limited, a company listed on the main board of the Stock Exchange, since September 15, 2016.

Mr. Yang Chie Chen, Charles, aged 59, holds a Master's Degree in Information Management from University of Maryland, Baltimore, US, and a Master's Degree in Enterprise Management from George Washington University, US. He joined the Group in 2015 and is now a vice president of the Group's innovation and research center. He is also a director of certain subsidiaries of the Company. Before joining the Group, he had worked at Apache Footwear Co., Ltd. for 9 years as executive president. Mr. Yang was active in retail marketing and information industries and has over 13 years' experience in the footwear industry.

Mr. Lee Chun Yen, aged 49, joined the Group in 1992 and is an executive assistant vice president of the Group mainly responsible for the business development and production of certain major brands. He is also a director of certain subsidiaries of the Company.

Mr. Shih Chih-Hung, aged 51, joined the Group in 1991 and is an executive assistant vice president of the Group mainly responsible for the promulgation and implementation of administrative policies of the Group in Indonesia, Vietnam, Bangladesh, Cambodia and Myanmar. He is also a director of certain subsidiaries of the Company. He graduated from Chung-Yuan University.

Mr. Song Wan Fan, Johnny, aged 59, joined the Group in 1995. He is currently an executive assistant vice president of the Group and is responsible for the business development and production management of certain major brands. Before joining the Group, he had worked at renowned footwear companies in Taiwan and was responsible for product quality control and administration of factory affairs. He has over 21 years' experience in development and factory management.



Biographical Details of Directors and Senior Management

Mr. Chau Chi Ming, Dickens, aged 53, is a director of Finance & Treasury, responsible for daily financial management and treasury functions of the Group. He is also a director of certain subsidiaries of the Company. He was the company secretary of the Company from January 12, 2014 to March 23, 2016. Mr. Chau had nine years of corporate banking experience before joining the Group in 1993. He graduated from The Chinese University of Hong Kong with a Bachelor of Business Administration Degree, majoring in Finance. He is a member of The Hong Kong Institute of Certified Public Accountants and a fellow of The Association of Chartered Certified Accountants of the UK.

Ms. Chua Chun Po, aged 37, is a senior accounting manager of the Group responsible for overseeing accounting activities of the Group. She is also a director of certain subsidiaries of the Company. She holds a bachelor degree in business administration, majoring in accountancy and has over 15 years of experience in accounting and auditing. She is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Prior to joining the Group in 2014, she worked in a reputable international accounting firm, a professional accounting body and a Hong Kong listed company.

Ms. Yau Suet Fong, Christina, aged 56, joined the Group in 1993 and is a senior accounting manager of the Group responsible for the financial and management accounting of several major subsidiaries of the Group, tax review and special projects. She holds a Bachelor of Business (Accounting) Degree from Charles Sturt University, Australia and has more than 25 years of accounting experience.

Ms. Mandy Chiang, aged 41, is the Investor Relations Director of the Company since 2016, and is responsible for all aspects of the Company's investor relations policies, objectives and initiatives. Before joining the Company, she worked as a head of IR for China Life Insurance, and a financial planning manager for various international institutions, where she earned valuable experience of budgeting, controlling, business analysis and treasury, including cash and liquidity management. She holds a MBA degree from University of Illinois at Urbana-Champaign.

Ms. Ng Yuk Yee, Feona, aged 46, joined the Group in 2015 and is the company secretary and Head of Legal and Company Secretary Department of the Group. Ms. Ng is a solicitor of the High Court of the Hong Kong Special Administrative Region and is experienced in handling legal and company secretarial matters. She holds a bachelor of laws with honors degree from City University of Hong Kong.



Directors' Report

The directors of the Company (the "Directors") have the pleasure to present their annual report and the audited consolidated financial statements for the year ended December 31, 2016.

Principal Activities

The Company is an investment holding company. The principal activities of the Group are the manufacturing, marketing and retailing of athletic footwear, athletic style leisure footwear, casual and outdoor footwear.

Results and Appropriations

The results of the Group for the year ended December 31, 2016 are set out in the consolidated income statement on page 72 of the annual report.

During the year, an interim dividend of HK\$0.40 per share was paid to the Shareholders for the six months ended June 30, 2016. The Directors recommend the payment of a final dividend of HK\$1.00 per share to the Shareholders whose names appear on the register of members of the Company on June 2, 2017, amounting to approximately HK\$1,645,835,000.

Subsidiaries, Associates and Joint Ventures

Details of the principal subsidiaries, associates and joint ventures of the Group as at December 31, 2016 are set out in Notes 49, 19 and 20 to the consolidated financial statements respectively.

Share Capital

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

Investment Properties

Details of the movements in the investment properties of the Group during the year are set out in Note 13 to the consolidated financial statements.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group during the year are set out in Note 14 to the consolidated financial statements.

Donations

During the year ended December 31, 2016, the Group made charitable and other donations totalling approximately US\$1.7 million.



Directors' Report

Distributable Reserves of the Company

As at December 31, 2016, the Company's reserves available for distribution to the Shareholders were US\$565,575,000, which comprises contributed surplus of US\$38,126,000 and retained profits of US\$527,449,000 of the Company.

Under the Companies Act 1981 of Bermuda (as amended) (the "Companies Act of Bermuda"), the contributed surplus account of the Company is available for distribution to the Shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realizable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Directors and Directors' Service Contracts

The Directors during the year and up to the date of this report were as follows:

Executive directors:

Lu Chin Chu (*Chairman*)

Tsai Pei Chun, Patty (*Managing Director*)

Kuo Tai Yu (retired on March 2, 2016)

Chan Lu Min

Lin Cheng-Tien

Lee Shao Wu (resigned on February 6, 2017)

Tsai Ming-Lun, Ming

Hu Chia-Ho

Liu George Hong-Chih

Hu Dien Chien (appointed on March 24, 2017)

Independent non-executive directors:

Leung Yee Sik

Huang Ming Fu

Chu Li-Sheng

Yen Mun-Gie (*also known as Teresa Yen*)

Hsieh Yung Hsiang (*also known as Alfred Hsieh*)

Mr. Lu Chin Chu, Ms. Tsai Pei Chun, Patty, Mr. Chan Lu Min, and Mr. Hsieh Yung Hsiang (also known as Alfred Hsieh) will retire by rotation at the forthcoming annual general meeting of the Company to be held on May 26, 2017 ("2017 AGM") in accordance with Bye-law 87 of the bye-laws of the Company (the "Bye-laws") and, being eligible, will offer themselves for re-election.

Mr. Hu Dien Chien who was appointed to fill causal vacancy of the Board shall hold office until 2017 AGM in accordance with Bye-law 86(2) of the Bye-laws and, being eligible, will offer himself for re-election.



Directors and Directors' Service Contracts (continued)

Currently, all independent non-executive directors of the Company are appointed for a specific term of three years, subject to retirement by rotation in accordance with the provision of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Bye-laws.

The Company has received from each of its independent non-executive directors an annual confirmation confirming their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of its independent non-executive directors are independent.

None of the Directors being proposed for re-election at the 2017 AGM has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Permitted Indemnity Provisions

Under the Bye-laws, and subject to the applicable laws and regulations, the directors and officers of the Group shall be indemnified out of the assets and profits of the Company from or against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices provided that such indemnity does not extend to any matter in respect of any fraud or dishonesty. Such permitted indemnity provision has been in force throughout the year ended December 31, 2016. The Company has arranged for appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group.

Directors' and Chief Executives' Interests in Securities

As at December 31, 2016, the interests or short positions of the Company's directors, chief executives and their associates in the shares and/or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to 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 (the "Model Code") as set out in Appendix 10 of the Listing Rules, were as follows:

(a) Interests in the ordinary shares and underlying shares of HK\$0.25 each of the Company

Name of director	Capacity	Number of shares/underlying shares held <i>(Long position)</i>	Percentage of the issued share capital of the Company <i>(Note 1)</i>
Lu Chin Chu	Beneficial owner	45,000	0.00%
Lin Cheng-Tien	Beneficial owner	45,000	0.00%
Lee Shao Wu <i>(Note 2)</i>	Beneficial owner	78,000 <i>(Note 3)</i>	0.00%
Tsai Ming-Lun, Ming	Beneficial owner	33,000 <i>(Note 3)</i>	0.00%
Hu Chia-Ho	Beneficial owner	78,000 <i>(Note 3)</i>	0.00%
Liu George Hong-Chih	Beneficial owner	78,000 <i>(Note 3)</i>	0.00%



Directors' Report

Directors' and Chief Executives' Interests in Securities (continued)

(b) Interests in the ordinary shares and underlying shares of HK\$0.01 each of Pou Sheng, an associated corporation of the Company within the meaning of Part XV of the SFO

Name of director	Capacity	Number of shares/underlying shares held (Long position)	Percentage of the issued share capital of Pou Sheng (Note 4)
Tsai Pei Chun, Patty	Beneficial owner	19,523,000	0.37%
Chan Lu Min	Beneficial owner	851,250	0.02%
Hu Chia-Ho	Beneficial owner	800,000 (Note 5)	0.02%
Liu George Hong-Chih	Interests of children under 18 and/or spouse	414,000	0.01%

Notes:

- The total issued share capital of the Company as at December 31, 2016 is 1,648,928,486 shares.
- Mr. Lee Shao Wu resigned as an executive director of the Company on February 6, 2017.
- Each of Mr. Lee Shao Wu, Mr. Tsai Ming-Lun, Ming, Mr. Hu Chia-Ho and Mr. Liu George Hong-Chih is interested in 33,000 ordinary shares, which were granted by the Company with vesting conditions pursuant to the share award scheme of the Company adopted on January 28, 2014 and amended on March 23, 2016.
- The total issued share capital of Pou Sheng as at December 31, 2016 is 5,337,748,615 shares.
- Mr. Hu Chia-Ho has interests in share options granted under the share option scheme of Pou Sheng entitling him to subscribe for 800,000 ordinary shares of Pou Sheng.

Other than the interest disclosed above, none of the directors nor the chief executives of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at December 31, 2016.

Directors' Interests in Competing Businesses

Between the Company and Pou Sheng

Under Part XV of the SFO, the Company is deemed to be interested in 62.03% interest in Pou Sheng as at December 31, 2016, which is accounted for as a subsidiary of the Company. Pou Sheng is listed on the main board of the Stock Exchange. The principal businesses of Pou Sheng and its subsidiaries (collectively, the "Pou Sheng Group") are the retail and wholesale of footwear and sportswear in the Greater China region.

As at December 31, 2016, Ms. Tsai Pei Chun, Patty, who was an executive director of the Company, was also a non-executive director of Pou Sheng. Ms. Tsai Pei Chun, Patty also holds certain shares in Pou Sheng.



Directors' Interests in Competing Businesses (continued)

Between the Company and Pou Sheng (continued)

As the Company and Pou Sheng are separate listed entities run by separate and independent management, the Directors believe that the Company is capable of carrying on its business independently of, and at arms length from, Pou Sheng. As Pou Sheng no longer has any footwear manufacturing business, it is expected that there will not be any competition between the Pou Sheng Group and the Group in terms of the Group's footwear manufacturing business.

Between the Company and Eagle Nice (International) Holdings Limited ("Eagle Nice")

The Company holds indirectly 38.42% of the issued share capital of Eagle Nice as at December 31, 2016 whose shares are listed on the main board of the Stock Exchange. As the principal business activities of Eagle Nice and its subsidiaries are the manufacturing and trading of sportswear and garments, the retail and wholesale businesses of sportswear of the Group through Pou Sheng potentially competes with the businesses of Eagle Nice.

Mr. Kuo Tai Yu, who was an executive director of the Company up to March 2, 2016, was also an executive director of Eagle Nice up to September 15, 2016.

As the Company and Eagle Nice are separate listed entities run by separate and independent management, the Directors believe that the Company is capable of carrying on its business independently of, and at arms length from, Eagle Nice.

Save as disclosed above, as at December 31, 2016, none of the Directors had any interest in a business which may compete with that of the Group and which is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

Equity-linked Agreement

Save for the share option scheme of the Company, details of which is set out in the section headed "Share Incentive Schemes", no equity-linked agreement that will or may result in the Company issuing shares, or that require the Company to enter into any agreements that will or may result in the Company issuing shares, were entered into by the Company during the year.



Directors' Report

Share Incentive Schemes

(a) *Share Option Scheme of the Company*

The Company recognizes the importance of attracting talents and retaining employees and the contributions by other eligible participants by providing them with incentives and rewards through granting share-based incentives so as to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The Company believes that this will align their interests with that of the Company. In this connection, the Company has adopted a share option scheme, the details of which are stipulated as follows:

On February 27, 2009, the Company adopted a share option scheme (the "Yue Yuen Share Option Scheme") under which the Board may at its discretion grant share options to any eligible participants, including directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group. The Yue Yuen Share Option Scheme is valid and effective for a period of ten years commencing from February 27, 2009 to February 26, 2019, after which no further options may be offered or granted.

As at the date of this report, the total number of shares available for issue under the Yue Yuen Share Option Scheme is 164,892,848 shares, representing approximately 10% of the issued share capital of the Company as at the date of this report.

Without prior approval from the Shareholders, the maximum number of shares issued and to be issued upon exercise of the options granted and to be granted (including exercised, cancelled and outstanding options) to any individual in any twelve-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time. Any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the twelve-month period up to and including the date of grant, in aggregate over of 0.1% of the shares of the Company in issue on the date of such grant and with an aggregate value in excess of HK\$5 million (equivalent to approximately US\$0.6 million) must be approved in advance by the Shareholders.

The Board will specify the period within which the shares must be taken up under an option at the time of grant and such period shall not expire later than ten years from the date of grant.

The Board may, at its discretion, specify the minimum period for which an option must be held before it can be exercised at the time of grant.

A non-refundable consideration of HK\$10.00 shall be paid by each grantee on acceptance of the options within 14 days from the date of grant.



Share Incentive Schemes (continued)

(a) Share Option Scheme of the Company (continued)

The exercise price is to be determined by the Board, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

No share option has been granted under the Yue Yuen Share Option Scheme since its adoption.

Further details of the Yue Yuen Share Option Scheme are set out in Note 37 to the consolidated financial statements.

(b) Share Award Scheme of the Company

A share award scheme (the "Yue Yuen Share Award Scheme") was adopted on January 28, 2014 and amended on March 23, 2016 by the Company to recognize the contributions by certain personnel of the Group (and/or any company in which the Group may have an investment and any company which is a controlling shareholder of the Company including subsidiaries of such controlling shareholder ("Associated Entity")) and to attract suitable personnel for further development of the Group. Under the Yue Yuen Share Award Scheme, the Board may at its discretion grant any eligible participants awarded shares as it may determine appropriate provided that the total number of awarded shares shall not exceed 2% of the issued share capital of the Company as at the date of grant. The maximum number of shares which may be awarded to a selected participant under the scheme shall not exceed 1% of the issued share capital of the Company from time to time. Subject to early termination determined by the Board, the Yue Yuen Share Award Scheme is valid and effective for a period of ten years commencing on January 28, 2014, after which no further contribution to the trust fund will be made by the Company.

Eligible participant(s) selected by the Board for participation in the Yue Yuen Share Award Scheme shall have no right to any dividend held under the trust which shall form part of the residual cash or any of the returned shares. The trustee of the Yue Yuen Share Award Scheme shall not exercise the voting rights in respect of any shares held under the trust (including but not limited to the awarded shares, the returned shares, any bonus shares and scrip shares).



Directors' Report

Share Incentive Schemes (continued)

(b) *Share Award Scheme of the Company (continued)*

Details of the movements of the awards during the year ended December 31, 2016 were as follows:

	Date of grant	Vesting date	Number of awarded shares				
			Outstanding as at January 1, 2016	Granted during the year	Lapsed/ Cancelled during the year	Vested during the year	Outstanding as at December 31, 2016
Directors of the Company							
Lu Chin Chu	27.03.2014	27.03.2016	45,000	-	-	(45,000)	-
Lin Cheng-Tien	27.03.2014	27.03.2016	45,000	-	-	(45,000)	-
Lee Shao Wu (Note 1)	27.03.2014	27.03.2016	45,000	-	-	(45,000)	-
	03.10.2016	02.10.2018	-	33,000	-	-	33,000
Tsai Ming-Lun, Ming	03.10.2016	02.10.2018	-	33,000	-	-	33,000
Hu Chia-Ho	27.03.2014	27.03.2016	45,000	-	-	(45,000)	-
	03.10.2016	02.10.2018	-	33,000	-	-	33,000
Liu George Hong-Chih	27.03.2014	27.03.2016	45,000	-	-	(45,000)	-
	03.10.2016	02.10.2018	-	33,000	-	-	33,000
Sub-total			225,000	132,000	-	(225,000)	132,000
Employees of the Group and/or Associated Entities							
	27.03.2014	27.03.2016	1,192,500	-	(67,500)	(1,125,000)	-
	29.05.2014	29.05.2016	22,500	-	-	(22,500)	-
	29.03.2016	29.03.2018	-	34,000	-	-	34,000
	03.10.2016	02.10.2018	-	953,500	-	-	953,500
Sub-total			1,215,000	987,500	(67,500)	(1,147,500)	987,500
Total			1,440,000	1,119,500	(67,500)	(1,372,500)	1,119,500

Note:

- Mr. Lee Shao Wu resigned as an executive director of the Company on February 6, 2017.

During the year ended December 31, 2016, the Group recognized a net expense of US\$739,000 as equity-settled share-based payments in the consolidated income statement under the Yue Yuen Share Award Scheme with reference to the share awards' respective vesting periods and the share awards lapsed / cancelled prior to their vesting dates after recognizing share award expenses.

Further details of the Yue Yuen Share Award Scheme are set out in Note 37 to the consolidated financial statements.



Share Incentive Schemes (continued)

(c) Share Option Scheme of Pou Sheng

Pou Sheng recognizes the importance of offering incentive and rewards through the grant of share-based incentive mechanism for attracting talents and retaining employees. Pou Sheng believes that this will align their interests with that of Pou Sheng.

Pou Sheng share option scheme was adopted by the shareholders of Pou Sheng on May 14, 2008 and amended on March 7, 2012 (the "Pou Sheng Share Option Scheme"). The Pou Sheng Share Option Scheme is valid and effective for a period of ten years commencing on May 14, 2008, after which no further share options may be offered or granted.

Pursuant to the terms of the Pou Sheng Share Option Scheme, the total number of shares which may be issued upon exercise of all share options to be granted under the Pou Sheng Share Option Scheme shall not exceed 10% of the total number of Pou Sheng's issued shares as at the date on which dealings in the Pou Sheng's shares first commence on the Stock Exchange (i.e. June 6, 2008) (being 355,000,000 shares).

As at the date of this report, the total number of shares available for issue under the Pou Sheng Share Option Scheme is 282,867,810 shares, representing approximately 5.30% of the total number of Pou Sheng's issued shares. As at December 31, 2016, an aggregate of 54,549,190 shares are issuable for share options granted under the Pou Sheng Share Option Scheme, representing approximately 1.02% of the total number of Pou Sheng's issued shares.

For the Pou Sheng's share options in respect of 11,663,190 shares granted on November 14, 2016, upon the terms of the operation and share incentive agreement governing the grant, the total amount payable on acceptance of the options was US\$303,950.77 and the payment must be made within 5 days from the date on which the offer letters were delivered to the relevant grantees. Save for the aforesaid, under the rules of the Pou Sheng Share Option Scheme, the amount payable on acceptance of the option is HK\$1.00 and the payment must be made within 28 days from the date on which the offer letter is delivered to the participant.

Further details of the Pou Sheng Share Option Scheme are set out in Note 37 to the consolidated financial statements.



Directors' Report

Share Incentive Schemes (continued)

(c) *Share Option Scheme of Pou Sheng (continued)*

Pursuant to the Pou Sheng Share Option Scheme, movements in Pou Sheng's share options during the year are listed below:

	Date of grant	Exercise price HK\$	Vesting period	Exercisable period	Number of underlying shares comprised in the Pou Sheng's share options				
					Outstanding as at January 1, 2016	Granted during the year	Exercised during the year	Lapsed/cancelled during the year	Outstanding as at December 31, 2016
Director of the Company									
Hu Chia-Ho	21.01.2010	1.620	21.01.2010-20.01.2011	21.01.2011-20.01.2018	120,000	-	-	-	120,000
			21.01.2010-20.01.2012	21.01.2012-20.01.2018	120,000	-	-	-	120,000
			21.01.2010-20.01.2013	21.01.2013-20.01.2018	240,000	-	-	-	240,000
			21.01.2010-20.01.2014	21.01.2014-20.01.2018	320,000	-	-	-	320,000
Sub-total					800,000	-	-	-	800,000
Employees/ Consultants of Pou Sheng									
	21.01.2010	1.620	21.01.2010-20.01.2011	21.01.2011-20.01.2018	2,293,950	-	(454,500)	177,000 ¹	2,016,450
			21.01.2010-20.01.2012	21.01.2012-20.01.2018	2,293,950	-	(449,500)	177,000 ¹	2,021,450
			21.01.2010-20.01.2013	21.01.2013-20.01.2018	4,587,900	-	(844,000)	354,000 ¹	4,097,900
			21.01.2010-20.01.2014	21.01.2014-20.01.2018	6,117,200	-	(942,000)	(808,000) ¹	4,367,200
	20.01.2011	1.230	20.01.2011-19.01.2012	20.01.2012-19.01.2019	4,500,000	-	(1,975,000)	-	2,525,000
			20.01.2011-19.01.2013	20.01.2013-19.01.2019	4,500,000	-	(1,625,000)	-	2,875,000
			20.01.2011-19.01.2014	20.01.2014-19.01.2019	4,500,000	-	(1,236,000)	-	3,264,000
			20.01.2011-19.01.2015	20.01.2015-19.01.2019	4,500,000	-	(1,125,000)	-	3,375,000
	07.03.2012	1.050	07.03.2012-06.03.2013	07.03.2013-06.03.2020	375,000	-	(375,000)	-	-
			07.03.2012-06.03.2014	07.03.2014-06.03.2020	375,000	-	(375,000)	-	-
			07.03.2012-06.03.2015	07.03.2015-06.03.2020	375,000	-	(375,000)	-	-
			07.03.2012-06.03.2016	07.03.2016-06.03.2020	375,000	-	(375,000)	-	-
	14.11.2016	2.494	14.11.2016-31.08.2017	01.09.2017-01.09.2019	-	1,166,320	-	-	1,166,320
			14.11.2016-31.08.2018	01.09.2018-01.09.2020	-	1,166,320	-	-	1,166,320
			14.11.2016-31.08.2019	01.09.2019-01.09.2021	-	1,166,320	-	-	1,166,320
			14.11.2016-31.08.2020	01.09.2020-01.09.2022	-	2,332,640	-	-	2,332,640
			14.11.2016-31.08.2021	01.09.2021-01.09.2023	-	5,831,590	-	-	5,831,590
Sub-total					34,793,000	11,663,190	(10,151,000)	(100,000)	36,205,190



Share Incentive Schemes (continued)

(c) *Share Option Scheme of Pou Sheng (continued)*

Date of grant	Exercise price HK\$	Vesting period	Exercisable period	Number of underlying shares comprised in the Pou Sheng's share options				
				Outstanding as at January 1, 2016	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding as at December 31, 2016
Former Employees of Pou Sheng								
21.01.2010	1.620	21.01.2010-20.01.2011	21.01.2011-20.01.2018	2,026,500	-	(624,500)	-	1,402,000
		21.01.2010-20.01.2012	21.01.2012-20.01.2018	2,026,500	-	(595,500)	-	1,431,000
		21.01.2010-20.01.2013	21.01.2013-20.01.2018	1,857,000	-	(30,000)	-	1,827,000
		21.01.2010-20.01.2014	21.01.2014-20.01.2018	884,000	-	-	-	884,000
20.01.2011	1.230	20.01.2011-19.01.2012	20.01.2012-19.01.2019	7,087,500	-	(100,000)	-	6,987,500
		20.01.2011-19.01.2013	20.01.2013-19.01.2019	3,462,500	-	(125,000)	-	3,337,500
		20.01.2011-19.01.2014	20.01.2014-19.01.2019	1,000,000	-	-	-	1,000,000
		20.01.2011-19.01.2015	20.01.2015-19.01.2019	300,000	-	-	-	300,000
07.03.2012	1.050	07.03.2012-06.03.2013	07.03.2013-06.03.2020	375,000	-	-	-	375,000
		07.03.2012-06.03.2014	07.03.2014-06.03.2020	-	-	-	-	-
		07.03.2012-06.03.2015	07.03.2015-06.03.2020	-	-	-	-	-
		07.03.2012-06.03.2016	07.03.2016-06.03.2020	-	-	-	-	-
Sub-total				19,019,000	-	(1,475,000)	-	17,544,000
Total				54,612,000	11,663,190	(11,626,000)	(100,000)	54,549,190

Note:

- Included the reverse of a total of 1,180,000 underlying shares of Pou Sheng comprised in the Pou Sheng's share options (which were previously mistakenly treated as lapsed) during the year.

The closing price of the shares of Pou Sheng immediately before the date on which the share options were granted on November 14, 2016 is HK\$2.55.

The weighted average closing price of the shares of Pou Sheng immediately before the dates on which the share options were exercised during the year is HK\$2.31.

Saved as disclosed above, no share options had been granted, exercised, lapsed or cancelled under the Pou Sheng Share Option Scheme during the year.



Directors' Report

Share Incentive Schemes (continued)

(d) Share Award Scheme of Pou Sheng

The Pou Sheng share award scheme was adopted on May 9, 2014 and amended on November 11, 2016 (the "Pou Sheng Share Award Scheme") for recognising the contributions by certain persons including directors of Pou Sheng and employees of the Pou Sheng Group, providing incentives to retain them for the continuing operation and development of the Pou Sheng Group, and to attract suitable personnel for further development of the Pou Sheng Group. The Pou Sheng Share Award Scheme shall be valid and effective for a term of 10 years commencing on May 9, 2014. Any proposed award must be recommended by the remuneration committee of Pou Sheng and approved by the board of directors of Pou Sheng (the "Pou Sheng Board").

The total number of shares to be awarded under the Pou Sheng Share Award Scheme shall not exceed 4% of the issued shares of Pou Sheng as at the date of grant. The maximum number of shares which may be awarded to a selected participant (including vested and non-vested shares) shall not exceed 1% of the issued shares of Pou Sheng from time to time.

Eligible participant(s) selected by the Pou Sheng Board for participation in the Pou Sheng Share Award Scheme shall have no right to any dividend held under the trust which shall form part of the residual cash or any of the returned shares. The trustee of the Pou Sheng Share Award Scheme shall not exercise the voting rights in respect of any shares held under the trust (including but not limited to the awarded shares, the returned shares, any bonus shares and scrip shares).



Share Incentive Schemes (continued)

(d) Share Award Scheme of Pou Sheng (continued)

Pursuant to the Pou Sheng Share Award Scheme, movements in Pou Sheng's share awards during the year are listed below:

	Date of grant	Vesting period	Number of awarded shares				
			Outstanding as at January 1, 2016	Granted during the year	Vested during the year	Lapsed/ cancelled during the year	Outstanding as at December 31, 2016
Director of Pou Sheng							
Kwan, Heh-Der ¹	01.09.2014	01.09.2014-31.08.2017	1,200,000	-	-	-	1,200,000
	13.05.2016	13.05.2016-30.08.2018	-	1,400,000	-	-	1,400,000
Sub-total			1,200,000	1,400,000	-	-	2,600,000
Employees of Pou Sheng							
	01.09.2014	01.09.2014-31.08.2017	8,300,000	-	-	(1,200,000)	7,100,000
	21.03.2015	21.03.2015-20.03.2018	8,548,000	-	-	(765,000)	7,783,000
	14.08.2015	14.08.2015-13.08.2018	9,690,000	-	-	(1,360,000)	8,330,000
	24.03.2016	24.03.2016-23.03.2019	-	5,130,000	-	(210,000)	4,920,000
	13.08.2016	13.08.2016-12.08.2019	-	5,460,000	-	-	5,460,000
	12.11.2016	12.11.2016-30.08.2019	-	600,000	-	-	600,000
	14.11.2016	14.11.2016-31.08.2017	-	833,680	-	-	833,680
	14.11.2016	14.11.2016-31.08.2018	-	833,680	-	-	833,680
	14.11.2016	14.11.2016-31.08.2019	-	833,680	-	-	833,680
	14.11.2016	14.11.2016-31.08.2020	-	1,667,360	-	-	1,667,360
	14.11.2016	14.11.2016-31.08.2021	-	4,168,410	-	-	4,168,410
Sub-total			26,538,000	19,526,810	-	(3,535,000)	42,529,810
Total			27,738,000	20,926,810	-	(3,535,000)	45,129,810

Note:

- All share awards granted to Mr. Kwan, Heh-Der have lapsed upon his resignation on January 6, 2017.

The weighted average closing price of the shares of Pou Sheng immediately before the grant of the awarded shares during the year is HK\$2.26.

Further details of the Pou Sheng Share Award Scheme are set out in Note 37 to the consolidated financial statements.



Directors' Report

Arrangements to Purchase Shares or Debentures

Save as disclosed in the "Share Incentive Schemes" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Substantial Shareholders' Interests in Securities

As at December 31, 2016, the register of substantial shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO shows that, other than the interests disclosed in "Directors' and Chief Executives' Interests in Securities", the following Shareholders had notified the Company of their relevant interests in the ordinary shares and underlying shares of HK\$0.25 each of the Company, which represent 5% or more of the issued share capital of the Company:

Name of Shareholder	Notes	Number of ordinary shares held	Percentage of the issued share capital of the Company*
<i>Long position</i>			
Pou Chen Corporation ("PCC")	(a)	824,143,835	49.98%
Wealthplus Holdings Limited ("Wealthplus")	(a)	773,156,303	46.88%
Max Creation Industrial Limited ("Max Creation")	(b)	115,001,998	6.97%
World Future Investments Limited ("World Future")	(c)	115,001,998	6.97%
Mr. Tsai Chi Jui	(c)	115,321,998	6.99%
Ms. Tsai Huang Shu Man	(c)	115,321,998	6.99%
Merrill Lynch & Co. Inc.	(d)	99,315,703	6.02%
Commonwealth Bank of Australia	(e)	82,559,791	5.01%
<i>Short position</i>			
Merrill Lynch & Co. Inc.	(d)	109,341,792	6.63%

* The total issued share capital of the Company as at December 31, 2016 is 1,648,928,486 shares.



Substantial Shareholders' Interests in Securities (continued)

Notes:

- (a) Of the 824,143,835 ordinary shares beneficially owned by PCC, 773,156,303 ordinary shares were held by Wealthplus and 50,987,532 ordinary shares were held by Win Fortune Investments Limited ("Win Fortune"). Both Wealthplus and Win Fortune are wholly-owned subsidiaries of PCC. Mr. Lu Chin Chu, Ms. Tsai Pei Chun, Patty, Mr. Chan Lu Min and Mr. Tsai Ming-Lun, Ming, who are directors of the Company, are also directors of PCC and Wealthplus. Mr. Kung Sung Yen (who was a director of the Company up to March 6, 2015) was a director of Wealthplus up to June 15, 2016. Mr. Kuo Tai Yu (who was a director of the Company up to March 2, 2016) was a director of Wealthplus up to February 23, 2016. Mr. Lu Chin Chu and Mr. Chan Lu Min are directors of Win Fortune.
- (b) Of the 115,001,998 ordinary shares beneficially owned by Max Creation, 80,494,822 ordinary shares were held by Quicksilver Profits Limited ("Quicksilver"), 20,631,440 ordinary shares were held by Red Hot Investments Limited ("Red Hot") and 13,875,736 ordinary shares were held by Moby Dick Enterprises Limited ("Moby Dick"). Quicksilver, Red Hot and Moby Dick are wholly-owned subsidiaries of Max Creation.
- (c) World Future is deemed to be interested in 115,001,998 ordinary shares under the SFO by virtue of its interests in more than one third of the voting shares in Max Creation. Mr. Tsai Chi Jui, the father of Ms. Tsai Pei Chun, Patty (who is a director of the Company), is also deemed to be interested in these 115,001,998 ordinary shares under the same section as he holds 100% of the issued share capital in World Future. In addition, Mr. Tsai Chi Jui holds 320,000 ordinary shares directly. Ms. Tsai Huang Shu Man, being the spouse of Mr. Tsai Chi Jui, is deemed to be interested in the 115,321,998 ordinary shares in which Mr. Tsai Chi Jui is interested by virtue of the SFO.
- (d) Merrill Lynch & Co. Inc. is deemed to be interested in 35,000 ordinary shares (long position) held directly by Merrill Lynch Portfolio Managers Limited (for discretionary clients) under the SFO by virtue of its interest in more than one-third of the voting shares in Merrill Lynch Portfolio Managers Limited. Merrill Lynch Portfolio Managers Limited is wholly-owned by ML Invest, Inc., which is in turn wholly-owned by Merrill Lynch Group, Inc., which is in turn wholly-owned by Merrill Lynch & Co. Inc..

Merrill Lynch & Co. Inc. is also deemed to be interested in 5,985,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position) held directly by Blackrock, Inc. (for discretionary clients) under the SFO by virtue of its interest in more than one-third of the voting shares in Blackrock, Inc.. Merrill Lynch & Co. Inc. owns 49.8% of Blackrock, Inc. through various subsidiaries, namely, Princeton Services, Inc., Princeton Administrators, L.P., Merrill Lynch Investment Managers, L.P. and Fund Asset Management, L.P., which are all 99% owned by Merrill Lynch & Co. Inc. except for Princeton Services, Inc., which is wholly-owned by Merrill Lynch Group, Inc.. Merrill Lynch Group, Inc., which is wholly-owned by Merrill Lynch & Co. Inc., is also deemed to be indirectly interested in the 5,985,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position) held directly by Blackrock, Inc..

In light of the above, Merrill Lynch & Co. Inc. is deemed to be interested in an aggregate of 6,020,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position).

Merrill Lynch & Co. Inc. is also deemed to be interested in 93,294,918 ordinary shares (long position) and 106,721,792 ordinary shares (short position) held directly by Merrill Lynch International under the SFO by virtue of its interest in more than one-third of the voting shares in Merrill Lynch International. Merrill Lynch & Co. Inc. holds Merrill Lynch International through six wholly-owned subsidiaries namely, Merrill Lynch International Incorporated, Merrill Lynch International Holdings Inc., Merrill Lynch Europe Plc, Merrill Lynch Europe Intermediate Holdings, Merrill Lynch Holdings Limited and ML UK Capital Holdings. ML UK Capital Holdings is wholly-owned by Merrill Lynch Holdings Limited, which is in turn wholly-owned by Merrill Lynch Europe Intermediate Holdings, which is in turn wholly-owned by Merrill Lynch Europe Plc, which is in turn wholly-owned by Merrill Lynch International Holdings Inc., which is in turn wholly-owned by Merrill Lynch International Incorporated, which is in turn wholly-owned by Merrill Lynch & Co. Inc.. Merrill Lynch International is 97.2% owned by ML UK Capital Holdings. The above has been prepared based on the disclosure of interest form filed with the Company.



Directors' Report

Substantial Shareholders' Interests in Securities (continued)

Notes: (continued)

- (e) The Commonwealth Bank of Australia is deemed to be interested in 82,559,791 ordinary shares which were held by corporations controlled by it, namely Commonwealth Bank Officers Superannuation Corporation Pty Limited, Colonial Holding Company Limited, Commonwealth Insurance Holdings Limited, Colonial First State Group Ltd, Colonial First State Asset Management (Australia) Limited, First State Investment Managers (Asia) Ltd, First State Investments (UK Holdings) Ltd, First State Investments (Hong Kong) Ltd, SI Holdings Limited, First State Investment Management (UK) Limited, First State Investments International Limited, Capital 121 Pty Limited, Colonial First State Investments Limited, Realindex Investments Pty Limited, First State Investments (Bermuda) Limited, First State Investments Holdings (Singapore) Limited and First State Investments (Singapore), each a wholly-owned subsidiary of the Commonwealth Bank of Australia.

Other than the interests disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at December 31, 2016.

Connected Transactions and Directors' Interests in Transactions, Arrangements or Contracts of Significance

Details of the transactions regarded as connected transactions for the year ended December 31, 2016 are set out in Note 47(I) to the consolidated financial statements. The Company has complied with all the rule requirements for connected transactions under the Listing Rules.

Pursuant to Rule 14A.56 of the Listing Rules, the Board has reviewed the continuing connected transactions and the report of the auditor and engaged the auditor of the Company to perform certain works on continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has provided a letter to the Directors and confirmed that, for the year ended December 31, 2016, the continuing connected transactions:

- (i) had been approved by the Board;
- (ii) were, in all material aspects, in accordance with the pricing policies of the Group for transactions involving provision of goods and services by the Group;
- (iii) were entered into, in all material aspects, in accordance with the relevant agreement governing such transactions; and
- (iv) had not exceeded the relevant cap amounts for the financial year ended December 31, 2016.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors of the Company have confirmed that the transactions were entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, and according to the agreements governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.



Connected Transactions and Directors' Interests in Transactions, Arrangements or Contracts of Significance (continued)

Save as disclosed in Note 47(I):

- (i) no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year; and
- (ii) there was no transaction which needs to be disclosed as connected transaction in accordance with Chapter 14A of the Listing Rules.

Major Customers and Suppliers

The aggregate sales attributable to the Group's five largest customers were approximately 51% of the Group's total sales for the year; and the sales attributable to the Group's largest customer were approximately 20% of the Group's total sales for the year.

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

At no time during the year did a Director, an associate of a Director or a Shareholder, which to the knowledge of the Directors owns more than 5% of the Company's issued share capital, have an interest in any of the five largest customers or suppliers of the Group.

Update on Directors' Information Under Rule 13.51B(1) of the Listing Rules

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors since the date of the Company's 2016 interim report on August 12, 2016 are set out below:

Mr. Lee Shao Wu resigned as an executive director of the Company on February 6, 2017.

Mr. Hu Dien Chien has been appointed as an executive director of the Company on March 24, 2017.

Details of changes in the Directors' remunerations are set out in Note 10 to the consolidated financial statements.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended December 31, 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities except that the trustee of the Yue Yuen Share Award Scheme, pursuant to the terms of the trust deed of the Yue Yuen Share Award Scheme, purchased on the Stock Exchange a total of 1,085,500 shares in the Company at a total consideration of approximately HKD30,076,000 (equivalent to approximately US\$3,878,000).



Directors' Report

Emolument Policy

The emolument policy of the employees of the Group is set up by the Board on the basis of their merit, qualifications and competence.

The emoluments of the Directors are recommended by the remuneration committee of the Company and are decided by the Board, as authorized by Shareholders at the annual general meeting, having regard to the Group's operating results, the Directors' individual performance and comparable market statistics.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

Corporate Governance

The Company is committed to maintain a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 49 to 63 of this annual report.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company, except for contract of service with any Director or any person engaged in full time employment of the Company, were entered into or existed during the year.

Business Review

Business and External Environment

Accommodative monetary policies and a recovery in consumer sentiment in G7 countries contributed to a more stable global economic environment. However, this was overshadowed by uncertainties surrounding Brexit and the election of the new Trump administration and the future implications of these changes. Although China's GDP growth slowed as policy makers shifted their focus from investment and exports to domestic consumption, it still remains one of the world's fastest growing economies. The Chinese authorities have also approved a number of favorable policies to promote fitness and sports consumption.

The manufacturing business continued to face many uncertainties and challenges as the result of uneven economic activity across different markets, coupled with rising input costs. The Group continued to optimize its production base and provide innovation solutions to its brand customers to help control input costs, diversify production and assist in risk management.

More information and details regarding the business and external environment of the Company are set out in the "Chairman's Statement" on pages 7 to 9 of this annual report.



Business Review (continued)

Performance and Financial Position

The key performance indicators of the Group are as follows:

Key Performance Indicator	12M F2016	12M F2015	12M F2014
Gross Profit Margin (%)	25.2	23.4	22.1
Operating Profit Margin (%)	7.1	5.2	4.1
Net Profit Margin (%)	6.8	5.0	4.3
Total debt to equity (%)	18.8	16.5	19.9
Net debt to equity (%)	Net cash	Net cash	Net cash
Return on equity (%)	11.3	8.7	7.5
Return on asset (%)	7.6	5.8	4.8

The Group is prudently managed in such a way that decision making are focused on long-term objectives, which are aimed towards sustainable development and balancing the interests of various stakeholders.

Environmental Policies and Performance

In respect of the footwear manufacturing business, the Group has established a set of management policies, mechanisms and measures on environmental protection and natural resources conservation to help ensure the sustainable development and operation of the Group. The Group strives to enhance the efficiency in the usage of energy, water and materials and also complies with relevant local environmental regulations and international general practices, with an aim to reduce the uses of natural resources and protect the environment. It is expected that through the implementation of the Manufacturing Excellence program, production efficiency will be uplifted and the use of energy and chemicals per unit produced will be reduced. The actions taken are aligned with international standards. These include greenhouse gas emission inspections, reduction, classification and recycling of wastes, and consultations on energy conservation and carbon reduction in factories with high energy consumption levels. The Group is also committed to provide a safe working environment for the employees, and has gradually established a standardized safety management system with the establishment of organizations, horizontal cross-division cooperation and top-down execution. In addition, the Group is committed to meet customers' needs, facilitate suppliers' development and fulfill social responsibilities. With a vision of "resources integration and value enhancement", the Group expects to establish a sustainable green supply chain that can satisfy the needs of the customers and ensure its performance of social responsibilities.

Effective Use of Resources

When selecting raw materials for production, the Group follows brand customers' quality requirements and standards and all related materials must pass specified testing. The Group also explores jointly with the customers on the application of various types of green materials in footwear manufacturing. With respect to material procurement, we rely on the respective local suppliers to supply the materials in order to reduce the risk of supply interruption as well as to reduce carbon emissions in transportation.



Directors' Report

Business Review (continued)

Environmental Policies and Performance (continued)

Effective Use of Resources (continued)

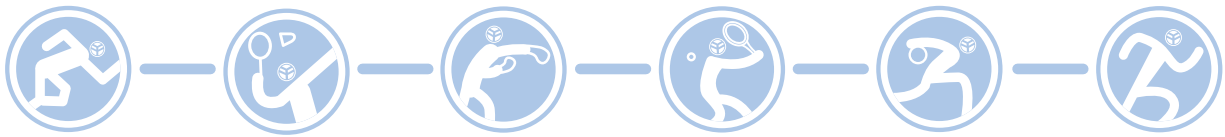
In respect of energy usage, the Group has also formulated the "Guidelines on Energy Management" of which the principles are the reasonable use of energy resources and gradual improvement of energy usage efficiency. The factories in Southern China (Dongguan), the newly constructed factory in Myanmar, and some operating bases in Indonesia had completed the installation of the online energy monitoring system in 2016. The system will be installed in more operating bases over the following years, in order to help the factories to identify abnormal energy consumption and opportunities for energy conservation. In the implementation of energy saving and carbon reduction, energy-saving projects for some key factories on high energy consumption facilities were launched continuously in 2016, all achieving the expected energy efficiency.

With respect to water resources management policies, the Group ensures that water provided meet the specified water quality standards and that processing of discharged water is in compliance with the local discharge regulations. In order to manage the safe use of water resources in each factory, large-scale water purification plants and reverse osmosis water purification system equipment have been set up.

Emission Management

The Group follows closely the "Paris Agreement" and the relevant laws and regulations implemented or specific actions taken by different countries in the reduction of greenhouse gas emission. In addition to compliance with relevant laws and regulations, measures are also established to reduce greenhouse gas emission accordingly. Currently, the Group primarily adopts energy-saving projects and gradual replacement of high pollutant/high carbon emission fossil fuel to help the factories achieve energy saving and carbon emission reduction. ISO 14064-1 standard is used by the Group as a reference in conducting greenhouse gas inspection in factory areas in the production bases. In 2016, the Group continued to enhance the inspection process for greenhouse gas emission of all factories in order to improve the reliability and completeness of the collected data. In addition to random on-site inspections of reported data from established factories, newly operational factories (new factory in Indonesia and new factory in Myanmar) have been formally included in the reporting of the Group's greenhouse gas emission this year.

As for sewage discharge, the Group has formulated the "Guidelines on Sewage Pollution Control Measures", which focuses on the priority of reducing usage at the source and preventing generation of waste water. As the next priority, sewage is to be recycled and reused, and lastly, proper handling of sewage according to the regulatory requirements. In the industrial parks where the factories are located, there are large biological sewage treatment systems with dedicated water quality laboratories for water quality testing and monitoring. For the sewage discharge of the Group's factories in 2016, a sewage spill incident occurred in a factory in Vietnam due to sewage pipe rupture. We managed the contingency immediately and passed the re-inspection by local environmental authorities. There was no material environmental impact on the receiving waters and the surrounding environment arising from this incident. Meanwhile, in 2016, we proactively conducted self-checking against the Group's factories, and we are evaluating and planning to add wastewater treatment plants for the factory expansions of the production areas in Vietnam and Indonesia, so as to implement a proper and due management of sewage.



Business Review (continued)

Environmental Policies and Performance (continued)

Emission Management (continued)

With respect to the prevention of air pollution, the Group has formulated the “Guidelines on Air Pollution Control Management”. The first guiding principle is to keep the factory emission in line with the local emission standards. The next guiding principle is the introduction of pollution assessment on production processes with the aim of proper handling of the pollution in accordance with the regulatory requirements. In recent years, the awareness of sustainable development has been gradually strengthened, and the environmental protection laws of every country are becoming more stringent. The Group has also actively responded to the international sustainable development goals. We have strengthened our environmental management, and have conducted compliance checks for the environmental impact on the Group’s factories with a view to achieving continuous improvement. In 2016, we actively cooperated with the air quality improvement requirement in Mainland China. To ensure the Group’s operation and production comply with laws and regulations, our factories have also added necessary air pollutant control and treatment facilities according to the requirement from environment assessments.

Waste management strategy of the Group focuses on the legal transportation, disposal, and reduction and reuse of wastes. All the waste disposal and processing must be carried out by government-certified service providers according to local laws. Recyclable wastes are collected according to classifications specified by brand customers. As at December 31, 2016, all transportation and disposal of wastes were in compliance with local requirements.

The Group has also promoted and implemented a number of green office measures.

Workplace Safety

With respect to occupational safety and hygiene management, in addition to compliance with corresponding local laws and regulations and brand customers’ requirements, the Group also follows international standards OHSAS 18001 and the FLA Workplace Code of Conduct. The Group has established a series of management directives for all departments to follow when implementing management and hazards prevention measures. Every factory and administrative center of the Group regularly meets with the Environmental Protection, Safety and Hygiene Committee to review relevant management issues related to safety and hygiene. The Group also requires all factories to regularly review the internal safety and hygiene management inspection system, and establish electronic surveillance system to monitor abnormal incidents, as well as the prevention mechanism by way of conducting data analysis to help focus on major risks.

Product Management and Services

The Group is committed to provide customers with products of high quality and safety and places high importance on any customer demand for product quality. From product development to production, the Group strictly follows international legal requirements and complies with the brand customers’ lists of prohibited and restricted substances and the Sustainable Chemistry Guidance in the selection of raw materials. We also monitor the production from start to finish to ensure products are consistent with the principles of eco-friendliness and human health.

In recent years, the Group has been actively promoting production transformation through Manufacturing Excellence program. Lean Production concept has been introduced to the manufacturing processes. The existing production capacity is continually optimized and the supply chain is further integrated. We continue to develop and promote the automated production mode and introduce plans to expedite the replacements of energy-inefficient processes and equipment. With the successful implementation of the Manufacturing Excellence program, it is expected that production efficiency will be uplifted and the use of energy and chemicals per unit produced will be reduced.



Directors' Report

Business Review (continued)

Environmental Policies and Performance (continued)

Customer Privacy and Intellectual Property Protection

The Group has established dedicated technical research and development centers for customers, with strictly separated production areas and zoned processing operation areas so that the brand customers' privacy and trade secrets are protected. As an original equipment manufacturer for footwear products, the Group respects the intellectual property rights of the brand customers. The brand customers' intellectual property rights (such as trade marks) are only applied to products according to the scopes authorized by the brand customers, and would not be used for any other unauthorized purposes.

Supply Chain Management

The suppliers of the Group largely comprise four categories: raw material suppliers, mechanical equipment suppliers, work contractors and service contractors. Through our strategy of vertical integration and horizontal division of labor to integrate industrial know-how and technology, the Group connects the upper, middle and lower streams of the footwear manufacturing industry, covering the areas in mechanical and chemical engineering as well as in materials to form a complete supply chain.

To assist customers in developing unique and innovative products of high quality, and to perform our responsibilities as citizens of the planet earth, the Group focuses primarily on aspects of quality and green management with respect to raw material suppliers management. With factory operation audits conducted by professional teams, the systematic quality management abilities of raw material suppliers are ensured for the establishment of a green supply chain. In addition, regular annual or quarterly reviews are conducted with suppliers according to the properties of different supplied items, so as to ensure the continued maintenance of quality standards and compliance with green environmental requirements of the production and supply of the daily raw materials, which are critical to quality assurance for the customers and forthwith consistent with the trend of green development. Non-compliant items are pointed out and relevant improvements are proposed. The suppliers have to make improvements within specified periods or produce substantial improvement plans. Audit reports are issued to the suppliers and the tracking of deficiency improvements would be completed within 14 days after the issuance of the reports. The procurement ratio of the suppliers who failed were adjusted through a supplier management mechanism, in order to establish a high quality supply chain management system.

For more information on sustainable development of the Group and details regarding the Company's environmental policies and performance in respect of the footwear manufacturing business, as well as compliance with the relevant laws and regulations, please refer to the 2016 Environmental, Social and Governance Report of the Company.

For the relevant environmental policies and performance regarding the retail business, please refer to the 2016 Environmental, Social and Governance Report of Pou Sheng.

Compliance with Laws and Regulations

The Group operates its footwear manufacturing business mainly in China, Vietnam, Indonesia, Cambodia, Bangladesh and Myanmar. During the year ended December 31, 2016 and up to the date of this report, the Group has complied with all relevant laws and regulations of respective jurisdictions on labor rights, environmental protection, product safety and health, data privacy protection and regulatory requirements that have a significant impact on the Company.



Business Review (continued)

Relationship with Stakeholders

The Group identified stakeholders that are related to footwear manufacturing business including shareholders/investors, customers, employees, local community, government/regulatory authorities, suppliers, media, and non-governmental organizations. The Group conducts interactive communication with its stakeholders through various channels and seeks for their opinions and suggestions which will be used as important reference for the Group's sustainable development strategy.

Shareholders/Investors

The Group understands that the issues which are of concerns to shareholders/investors are the economic performance, corporate governance and market image etc.. The Group maintains close communication with shareholders/investors through various communication channels (such as publishing news on the Company/HKEx websites, convening shareholders' meetings, publishing press release and conducting roadshows) to enable shareholders/investors to learn about the latest status of the Group.

Customers

The Group has established long-term customer relations with multiple international eminent brands, to whom we are committed to provide the best services and products with high quality and safety. The Group continually improves its service quality and responds immediately to customers' needs in terms of delivery lead time, quality and price, so to strengthen the relationship with the brand customers and their reliance on the Group's product development capability and quality service.

Employees

The Group upholds the idea that "Focus on People, for the People". The Group believes that employees are important assets, and has planned a wholistic approach of recruitment, employment, training and retention of employees and team events are organized to build the employees' sense of belonging. The Group provides employees with comprehensive training, competitive compensation and diversified communication channels, as well as introducing the performance management system to achieve the Group's objective of sustainable operation.

Community

The Group adheres to the belief of "taking from the society, and giving back to the society". Apart from maintaining sound business development, the Group also actively demonstrates its corporate core value of Service. In 2016, the community participation activities focused on three main aspects: education, health and medical care and local public relations.

Government/Regulatory Authorities

The Group understands that the issues considered as important by the government/regulatory authorities in all business districts are corporate governance and compliance with laws and regulations, thus using best efforts to cooperate with the relevant government and regulatory authorities on compliance inspections, make due submission and participate in conferences/seminars.

Suppliers

Within the Group's supplier audit system, there are 11 scoring categories for quality management and 3 scoring categories for green management. With a vision of "resources integration and value enhancement", the Group expects to establish a sustainable green supply chain that can satisfy the needs of the customers and ensure its performance of social responsibilities.



Directors' Report

Business Review (continued)

Relationship with Stakeholders (continued)

Media

The issues of concerns to the media are employee rights and the Group's business operation status. The Group not only releases information to the media through communication documents of relevant issues/press releases, but also coordinates requests for visits by the media.

Non-governmental Organizations

The issues of major concerns to non-government organizations (such as Fair Labor Association) are labor relations, labor rights, compliance with the laws and regulations and environmental issues. The Group also closely liaises with non-government organizations through various channels (including ad hoc communication meetings, emails and phone contacts, etc.).

Regarding Pou Sheng's relationship with its stakeholders, Pou Sheng's environmental policies and performance as well as compliance with relevant laws and regulations that have a significant impact on Pou Sheng, please refer to the 2016 annual report of Pou Sheng.

Principal Risks and Uncertainties

The Group's activities involve both the footwear manufacturing business as well as the retail business in the Greater China. The principal types of risk faced by each business are listed below.

For the footwear manufacturing business, the risks and uncertainties include:

- The Group faces risks and challenges associated with managing very large numbers of production line staff.
- The Group faces risks associated with the reliance on/potential loss of key management personnel.
- Changes in government policy that may create adversity for the manufacturing industry.
- Fluctuations in commodities and other production inputs could impact the profitability of the Group.
- Impact on sales, costs, profit and cash:
 - Economic conditions
 - the rising cost of wages and salaries, rents, services and utilities
 - Change in market trends
 - Seasonality
 - Competitor activity
 - Defaults on receivables due from brand customers



Business Review (continued)

Principal Risks and Uncertainties (continued)

- Political instability associated with emerging or less developed countries that may impact transportation, worker sentiment and brand customer orders.
- Over ordering by brand customers leading to excess inventory on their books and a drop in subsequent orders for the Group.
- The Group has operations situated in different countries in Asia, so that it faces the risk of adverse movements in foreign currency exchange rates since the US dollar is used as the reporting currency.
- Failure or unavailability of operational and/or IT infrastructure.
- The Group faces the risk of impairment of its goodwill and intangibles assets.
- The Group faces the risk of impairment on its investments in joint ventures and associates.
- The Group faces the risk of impairment on its advances and loans to joint ventures and associates.

For the retail business, the risks and uncertainties include:

- Falling consumer spending leading to excess inventory in the retail channels and the need for aggressive discounting activity, and/or inventory obsolescence and discounting due to rapid changes in fashion trends.
- Changes in government policy that reduce customers' desire to buy functional footwear and apparel.
- The Group faces risks associated with the reliance on/potential loss of key management personnel.
- Impact on sales, costs, profit and cash:
 - Economic conditions in China
 - Change in market trends
 - Seasonality and/or weather
 - Cost of wages and salaries, rents, services and utilities
 - Competitor activity
 - Defaults on receivables due from other business partners



Directors' Report

Business Review (continued)

Principal Risks and Uncertainties (continued)

- Having grown organically, the Group faces risks and challenges associated with managing growth and ensuring that processes around acquiring and integrating new businesses are robust.
- The Group with substantial operations and interests in the PRC, which are subject to the risk of adverse movements in foreign currency exchange rates as the US dollar is used as the reporting currency.
- Failure or unavailability of operational and/or IT infrastructure.
- The Group faces the risk of impairment of its goodwill and intangibles assets.

Event after the Reporting Period

No significant event of the Group occurred after the end of the reporting period.

Future Development

Information and details regarding the future development in the Company's business are set out in the Chairman's Statement on pages 7 to 9 and Management Discussion and Analysis on pages 11 to 15.

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 at the latest practicable date prior to the printing of this annual report.

Auditor

There was no change in the Company's auditor in the preceding three years. A resolution will be proposed at the 2017 AGM to re-appoint Messrs. Deloitte Touche Tohmatsu ("Deloitte") as the auditor of the Company.

On behalf of the Board

Tsai Pei Chun, Patty

Managing Director

Hong Kong, March 24, 2017



Corporate Governance Report

The Company believes that good corporate governance provides a framework that is essential for effective management, healthy corporate culture, successful business growth and thereby enhancing Shareholders' value. It is committed to maintaining a high standard of corporate governance practices through the establishment of a comprehensive and efficient framework of policies, procedures and systems throughout the Group.

Corporate Governance Practices

During the year ended December 31, 2016, the Company has applied the principles of and has complied with all the applicable code provisions of the Corporate Governance Code (the "CG Code", including the new code provisions in the revised CG Code in relation to internal controls) as set out in Appendix 14 to the Listing Rules.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code for the year ended December 31, 2016.

Board of Directors

Currently, the Board comprises the following thirteen Directors:

Executive Directors

Mr. Lu Chin Chu (*Chairman*)
Ms. Tsai Pei Chun, Patty (*Managing Director*)
Mr. Chan Lu Min
Mr. Lin Cheng-Tien
Mr. Tsai Ming-Lun, Ming
Mr. Hu Chia-Ho
Mr. Liu George Hong-Chih
Mr. Hu Dien Chien

Independent Non-executive Directors

Mr. Leung Yee Sik
Mr. Huang Ming Fu
Mr. Chu Li-Sheng
Ms. Yen Mun-Gie (*also known as Teresa Yen*)
Mr. Hsieh Yung Hsiang (*also known as Alfred Hsieh*)

During the year ended December 31, 2016, the Company has at all times met the requirements under Rules 3.10(1) and (2), and 3.10A of the Listing Rules by appointing sufficient number of independent non-executive directors with at least one of them possesses appropriate professional qualifications or accounting or related financial management expertise. The Company has received from each of its independent non-executive directors an annual confirmation confirming their independence pursuant to Rule 3.13 of the Listing Rules.



Corporate Governance Report

Relationship between Board Members

Ms. Tsai Pei Chun, Patty is the cousin of Mr. Tsai Ming-Lun, Ming and both of them are members of the Tsai family. Save as disclosed herein, none of the members of the Board are related to one another.

Functions of the Board

The Board takes responsibility to oversee all major matters of the Group, including the formulation and approval (after taking into consideration of the recommendations made by the relevant committees) of all policies, overall strategies, risk management and internal control systems, and monitoring the performance of the senior management. The Directors make decisions objectively and in the interests of the Company.

The day-to-day management, administration and operation of the Group are delegated to the managing director and the senior management of the Company. The delegated functions and work tasks are reviewed periodically.

Board meetings and practices

The Board meets regularly and Board meetings are held at least four times a year at approximately quarterly intervals. Notices of regular Board meetings are served to all Directors at least fourteen days before the meetings to ensure that all Directors are given the opportunity to attend the meetings. Matters which are material and may cause potential conflicts of interest will be dealt with by physical Board meetings instead of by written resolutions of the Directors. Draft minutes of Board meetings are circulated to all Directors for review and comments within a reasonable time after the meetings prior to confirmation. Minutes are recorded in sufficient detail of the matters considered by the Board and decisions reached. The final versions of the minutes would be opened for inspection at any reasonable notice by any Directors.

During the year ended December 31, 2016, five Board meetings and one Shareholders' meeting were held. The attendance rate of each Board members at such meetings are set out in the section entitled "Attendance rate of meetings".

General Meetings

The summary of the matters resolved at the general meeting of the Company held in 2016 are as follows:

Date	Type of general meeting	Matters resolved
May 27, 2016	Annual general meeting	<ul style="list-style-type: none"> Adopted the audited financial statements for the year ended December 31, 2015; and Approved the re-election of directors, re-appointment of auditor and grant of general mandates to issue and repurchase shares.

The 2017 AGM of the Company is scheduled to be held on May 26, 2017 at 2:00 p.m.. Shareholders may refer to the notice of the 2017 AGM dated April 24, 2017 for details.

All resolutions at the general meetings of the Company shall be decided by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted by a show of hands.



Directors' Continuous Professional Development

According to code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development ("CPD") to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

The Company has received from all Directors of their respective training records. A summary of the trainings participated by the Directors during the year ended December 31, 2016 is as follows:

	Mode of CPD Training	
	Reading materials	Attending seminar
Executive Directors		
Lu Chin Chu	–	1 hour
Tsai Pei Chun, Patty	1 hour	–
Kuo Tai Yu ¹	N/A	N/A
Chan Lu Min	–	1 hour
Lin Cheng-Tien	–	1 hour
Lee Shao Wu ²	–	1 hour
Tsai Ming-Lun, Ming	–	1 hour
Hu Chia-Ho	–	1 hour
Liu George Hong-Chih	–	1 hour
Independent Non-executive Directors		
Leung Yee Sik	–	1 hour
Huang Ming Fu	–	1 hour
Chu Li-Sheng	–	1 hour
Yen Mun-Gie (<i>also known as Teresa Yen</i>)	–	1 hour
Hsieh Yung Hsiang (<i>also known as Alfred Hsieh</i>)	–	1 hour

Notes:

1. Mr. Kuo Tai Yu retired as an executive director of the Company on March 2, 2016.
2. Mr. Lee Shao Wu resigned as an executive director of the Company on February 6, 2017.



Corporate Governance Report

Directors' Liability Insurance and Indemnity

The Company has arranged for appropriate liability insurance to cover the liabilities of the Directors that may arise out of the corporate activities. The insurance coverage is reviewed on an annual basis. During the year ended December 31, 2016, no claim was made against any Directors.

Chairman and Managing Director

The position of the chairman of the Company is held by Mr. Lu Chin Chu and the position of the managing director of the Company is held by Ms. Tsai Pei Chun, Patty. The roles of the chairman and the managing director are clearly segregated and are not exercised by the same individual.

The chairman of the Company provides leadership to the Group and is responsible for the effective functioning of the Board whereas the managing director of the Company is in charge of the Group's day-to-day management and operations, development of strategic plans and implementation of the objectives, policies and strategies approved by the Board.

Appointment and Re-Election of Directors

Any appointment of a new Director is recommended by the nomination committee of the Company and the Board and is subject to the approval by the Shareholders in general meetings. Any Director who is appointed by the Board to fill a casual vacancy shall retire at the first general meeting of the Company after appointment. Any Director who is appointed as an addition number to the Board shall hold office only until the next following annual general meeting of the Company.

All independent non-executive directors of the Company are appointed for a specific term of three years. All Directors are subject to retirement by rotation at least every three years and re-election in accordance with the provisions of the Listing Rules and the Bye-laws. At least one-third of the Directors shall retire from office every year at the Company's annual general meeting.

Board Committees

Currently, the Board has established three principal committees, namely the nomination committee (the "Nomination Committee"), the remuneration committee (the "Remuneration Committee") and the audit committee (the "Audit Committee") of the Company. Each committee is delegated with specific authorities by the Board in assisting the Board to discharge its duties and to administer particular aspects of the Group's activities. The roles and functions of each committee are summarized below:

Nomination Committee

The Nomination Committee was established on December 29, 2011 with written terms of reference which are available under the "Corporate Governance" section of the Company's website at www.yueyuen.com (the "Company's Website").

The Nomination Committee currently comprises Mr. Huang Ming Fu (chairman of the Nomination Committee), Ms. Tsai Pei Chun, Patty, Mr. Chu Li-Sheng and Ms. Yen Mun-Gie (also known as Teresa Yen). All of the Nomination Committee members are independent non-executive directors of the Company except for Ms. Tsai Pei Chun, Patty who is an executive director of the Company.



Board Committees (continued)

Nomination Committee (continued)

The primary duties of the Nomination Committee are: (i) to review the structure, size and composition (including the skills, knowledge and experience) of the Board; (ii) to identify individuals suitably qualified to become board members; (iii) to assess the independence of independent non-executive directors of the Company; (iv) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; and (v) to review the Board Diversity Policy of the Company and make recommendation to the Board on any revisions to the same, as appropriate, to ensure its effectiveness.

The Nomination Committee held one meeting during the year ended December 31, 2016. The attendance rate of each committee members are set out in the section entitled "Attendance rate of meetings".

The following is a summary of the work performed by the Nomination Committee for the year ended December 31, 2016:

- Assessed, reviewed and affirmed the independence of the independent non-executive directors of the Company;
- Reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board;
- Considered the re-appointment of four executive directors upon expiry of their respective service agreement in 2016, and made recommendation for the Board's approval; and
- Recommended the retirement and re-election of Directors at the 2016 AGM for the Board's approval.

Remuneration Committee

The Remuneration Committee was established with written terms of reference which are available under the "Corporate Governance" section of the Company's Website.

The Remuneration Committee currently comprises Mr. Leung Yee Sik (chairman of the Remuneration Committee), Mr. Huang Ming Fu, Mr. Chu Li-Sheng, Ms. Yen Mun-Gie (also known as Teresa Yen) and Mr. Hsieh Yung Hsiang (also known as Alfred Hsieh). All of the Remuneration Committee members are independent non-executive directors of the Company.

The primary duties of the Remuneration Committee are to make recommendations to the Board on (i) the Company's policy and structure for all Directors' and senior management's remuneration; (ii) the remuneration packages of individual executive directors and senior management including benefits in kind, pension rights and compensation payments, etc.; and (iii) the remuneration of non-executive directors.

The Remuneration Committee held two meetings during the year ended December 31, 2016. The attendance rate of each committee members are set out in the section entitled "Attendance rate of meetings".



Corporate Governance Report

Board Committees (continued)

Remuneration Committee (continued)

The following is a summary of the work performed by the Remuneration Committee for the year ended December 31, 2016:

- Considered the remuneration of four executive directors for renewal of their respective service agreement in 2016, and made recommendation for the Board's approval;
- Reviewed the Company's 2015 remuneration for management with reference to the salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group, and made recommendation for the Board's approval;
- Reviewed the Company's policy and structure for all Directors' and senior management's remuneration;
- Reviewed the granting of share awards pursuant to the Yue Yuen Share Award Scheme and made recommendation for the Board's approval; and
- Made sure that no Director or his/her associate was involved in deciding his/her own remuneration.

Pursuant to B.1.5 of the CG Code, the remuneration of the senior management of the Company by band for the year ended December 31, 2016 was set out in Note 10 to the consolidated financial statements.

Audit Committee

The Audit Committee was established with written terms of reference which are available under the "Corporate Governance" section of the Company's Website.

The Audit Committee currently comprises Mr. Leung Yee Sik (chairman of the Audit Committee), Mr. Huang Ming Fu, Mr. Chu Li-Sheng, Ms. Yen Mun-Gie (also known as Teresa Yen) and Mr. Hsieh Yung Hsiang (also known as Alfred Hsieh). All of the Audit Committee members are independent non-executive directors of the Company and none of them is a former partner of the Company's existing external auditor. The Audit Committee has reviewed the audited consolidated financial statements for the year ended December 31, 2016.



Board Committees (continued)

Audit Committee (continued)

The primary duties of the Audit Committee are: (i) to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor; (ii) to approve the remuneration and terms of engagement of the external auditor; (iii) to monitor integrity of the Company's financial statements, interim and annual reports, and to review significant financial reporting judgments contained in such documents; and (iv) to oversee the Company's financial reporting system, risk management and internal control systems. At least twice a year the Audit Committee meets with the external auditor to discuss any area of concern during the audit or review.

The Audit Committee held four meetings during the year ended December 31, 2016 (two of the meetings have met with the external auditor of the Company). The attendance rate of each committee members are set out in the section entitled "Attendance rate of meetings".

The following is a summary of the major works performed by the Audit Committee for the year ended December 31, 2016:

- Reviewed the continuing connected transactions of the Group for the year ended December 31, 2015;
- Reviewed the Group's final results for the year ended December 31, 2015 and the interim results for the six months period ended June 30, 2016;
- Made recommendation to the Board for re-appointment of Deloitte as the Group's external auditor;
- Reviewed Deloitte's performance, independence and objectivity and the effectiveness of the audit process and its scope;
- Reviewed the Group's quarterly results for the three months ended March 31, 2016 and for the nine months ended September 30, 2016 respectively;
- Reviewed the "Report to the Audit Committee" prepared by the external auditor for the year ended December 31, 2015 and the six months ended June 30, 2016 respectively;
- Reviewed (i) the internal audit report for the year ended December 31, 2015 and the effectiveness of the internal control systems and (ii) the internal audit report for the six months ended June 30, 2016 and the effectiveness of the risk management and internal control systems; and
- Reviewed the arrangements employees of the Group can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters.



Corporate Governance Report

Board Committees (continued)

Attendance Rate of Meetings

The attendance rate of the Board, principal committees and Shareholders' meetings held in 2016 are as follows:

	Shareholders' Meeting	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meeting
Number of Meeting(s) Attended/Held					
Executive Directors					
Lu Chin Chu	1/1	5/5	N/A	N/A	N/A
Tsai Pei Chun, Patty	1/1	3/5	N/A	N/A	0/1
Kuo Tai Yu ¹	N/A	N/A	N/A	N/A	N/A
Chan Lu Min	1/1	5/5	N/A	N/A	N/A
Lin Cheng-Tien	0/1	5/5	N/A	N/A	N/A
Lee Shao Wu ²	0/1	4/5	N/A	N/A	N/A
Tsai Ming-Lun, Ming	0/1	4/5	N/A	N/A	N/A
Hu Chia-Ho	1/1	5/5	N/A	N/A	N/A
Liu George Hong-Chih	1/1	4/5	N/A	N/A	N/A
Independent Non-Executive Directors					
Leung Yee Sik	1/1	5/5	4/4	2/2	N/A
Huang Ming Fu	0/1	2/5	2/4	1/2	1/1
Chu Li-Sheng	0/1	5/5	4/4	2/2	1/1
Yen Mun-Gie (also known as Teresa Yen)	0/1	5/5	4/4	2/2	1/1
Hsieh Yung Hsiang (also known as Alfred Hsieh)	0/1	5/5	4/4	2/2	N/A

Notes:

1. Mr. Kuo Tai Yu retired as an executive director of the Company on March 2, 2016.
2. Mr. Lee Shao Wu resigned as an executive director of the Company on February 6, 2017.



Corporate Governance Functions

The Board is primarily responsible for performing the corporate governance functions of the Company, including the following:

- (a) To develop and review the Company's policies and practices on corporate governance and make changes as required;
- (b) To review and monitor the training and continuous professional development of Directors and senior management;
- (c) To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) To develop, review and monitor the code of conduct and compliance manual applicable to the Company's employees and Directors; and
- (e) To review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The Board has already adopted a "Statement of Policy on Corporate Governance" which sets out the key corporate governance principles observed by the Company and illustrates the practices and systems established by the Board in line with those principles. It serves as a framework guideline to assist the Board in supervising the management of the business and affairs of the Group.

Board Diversity Policy

The Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development. As mentioned in the "Board Diversity Policy" adopted by the Company, selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates may bring to the Board.

Auditor's Remuneration

During the year ended December 31, 2016, the remuneration paid to the Company's external auditor, Deloitte, is set out as follows:

	US\$'000
Audit services	1,983
Non-audit services	407
Total	2,390



Corporate Governance Report

Auditor's Remuneration (continued)

The above non-audit services include the review of interim financial statements, professional advisory on taxation, professional services rendered in connection with the setting up of overseas companies, the report of factual findings on agreed upon procedures in respect of continuing connected transactions and the review of internal control of business.

Directors' Responsibility and Auditor's Responsibility in Respect of Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements which give a true and fair view of the state of the Group's affairs and results. In doing so, the generally accepted accounting standards and suitable accounting policies in Hong Kong are adopted and applied consistently. The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Company's ability to continue as a going concern.

The statement of the auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 64 to 71 of this annual report.

Company Secretary

The company secretary of the Company (the "Company Secretary") is an employee of the Company and is appointed by the Board. The Company Secretary confirmed that she has taken at least 15 hours of relevant professional training during the year under review in compliance with Rule 3.29 of the Listing Rules.

Shareholders' Rights

The general meetings of the Company provide a communication channel between the Shareholders and the Board. An annual general meeting of the Company is held in each year and at the place as may be determined by the Board. General meetings other than an annual general meeting are called special general meetings. The Board may whenever it thinks fit convene special general meetings.

The Procedures for Shareholders to Convene a Special General Meeting

Pursuant to No. 58 of the Bye-laws, Shareholders holding at the date of the 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 Company Secretary at the Company's principal place of business in Hong Kong, to require a special general meeting to be convened 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 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act of Bermuda.



Shareholders' Rights (continued)

The Procedures for Sending Enquiries to the Board

The enquiries must be in writing with the detailed contact information of the requisitionists and deposited with the Board or the Company Secretary at the Company's principal place of business in Hong Kong as below:

Yue Yuen Industrial (Holdings) Limited
22nd Floor, C-Bons International Center
108 Wai Yip Street, Kwun Tong
Kowloon, Hong Kong

The Procedures for Shareholders to Put Forward Proposals at Shareholders' Meetings

Pursuant to Sections 79 and 80 of the Companies Act of Bermuda, registered Shareholders are entitled to put forward proposals at general meetings if they (i) represent not less than one-twentieth of the total voting rights at general meetings of the Company at the date of deposit of the requisition; or (ii) are not less than 100 registered Shareholders. The written requisition stating the resolution(s) should be duly signed by the registered Shareholder(s) concerned, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with must be deposited at the Company's principal place of business in Hong Kong. The requisition will be verified by the Company's branch share registrar in Hong Kong and upon their confirmation that the same is proper and in order, the Company Secretary will arrange to include the proposed resolution in the agenda of the general meeting.

The Procedures for Shareholders to Propose a Person for Election as a Director

As regards the procedures for proposing a person for election as a Director, please refer to the procedures made available under the Corporate Governance section of the Company's Website.

Information Disclosure and Investor Relations

The Board maintains an on-going dialogue with the Shareholders and the investment community mainly through the Company's financial reports, annual general meetings and by making available its corporate communications and publications on the Company's Website.

There is no change in the Memorandum of Association and Bye-laws of the Company during the year ended December 31, 2016. The aforesaid constitutional document is available for public inspection at the Company's Website.

Shareholders Communication Policy

The Company has adopted a "Shareholders Communication Policy" setting out the Company's procedures in providing the Shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company, with a view to enabling the Shareholders to exercise their rights in an informed manner and to allow the Shareholders and the investment community to engage actively with the Company.



Corporate Governance Report

Risk Management and Internal Control

The Board is responsible for maintaining sound and effective risk management and internal control systems for the Group, as well as reviewing the effectiveness of these systems. These systems are designated 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, and to assist in the achievement of the Group's objectives. These systems also ensure the maintenance of proper accounting records and compliance with operating procedures as well as relevant laws and regulations.

During the year under review, the internal audit function of the Group was performed by the internal audit department, which was responsible for the analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Group. At the same time, it also assessed the risks inherent to the business and operation, and conducted reviews or audits to provide reasonable, and not absolute, assurance that adequate governance and controls are in place to address such risks. The Board had also reviewed, through the Audit Committee, the effectiveness of the Group's risk management and internal control systems including financial control, operational control and compliance control, for the year ended 31 December 2015 and for the six months ended 30 June 2016, in March and in August 2016 respectively, and considered such systems to be effective and adequate.

Main Features of the Risk Management and Internal Control Systems

The Board performs its duties by formulating policies and procedures, including parameters for delegated authorization, which provide a framework for identification and management of risks. The Board takes responsibility to oversee all major matters of the Group, including the formulation and approval of all policies, overall strategies, risk management and internal control systems after taking into consideration of the recommendations made by the relevant committees, as well as monitoring the performance of the senior management and approving the detailed operational and financial report, budget and business plan submitted by the management. Meanwhile, the managing director conducts regular reviews with the management team of each core business unit on their authorized functions and work.

The management (including relevant heads of business units, departments and divisions) appropriately designs, implements and monitors the risk management and internal control systems, and ensures the effective performance of these systems; monitors risks and takes measures to mitigate risks in daily operations; provides timely responses and follow-up actions to findings on internal control matters raised by internal audit department or by external auditors; and provides confirmation to the Board on the effectiveness of these systems.

The Audit Committee is responsible for the ongoing review of the Group's risk management and internal control functions. On behalf of the Board, the Audit Committee regularly reviews the Group's risk management and internal control systems; ensures that the management has performed its duty to have effective systems; considers major investigation findings on risk management and internal control matters and management's responses to these findings; ensures co-ordination between the internal audit department and external auditor; and ensures that the internal audit function is adequately resourced and has appropriate standing within the Group, and reviews and monitors the effectiveness of the internal audit function.



Risk Management and Internal Control (continued)

Risk Management

The Group has put in place a set of internal audit planning and risk assessment systems, for the identification, assessment and management of significant risks. The processes are:

1. Audit Planning
 - a. Audit Subject Selection – The Group's risks are assessed according to financial risk factor and non-financial risk factor, and different factors are weighted according to their respective importance. At the same time, the Group's businesses are categorized into eight industry groups, according to the characteristics of the respective product, for the assessment of risks and the selection of business units as audit subjects accordingly. Apart from selecting audit subjects according to the risks assessment system, the auditing work will also be carried out according to the instructions of the Board and the senior management of the Group, or according to the requests of the heads of the business units.
 - b. Audit Preparation – After an annual refreshment of relevant data, the risk levels of each business units are recalculated, the audit of the new financial year is planned, and the Group's risk assessment report and the internal audit plan are presented to the Audit Committee by the head of the internal audit department.
2. Information Inspection and Evaluation – According to the annual internal audit plan and audit procedures, to understand, examine and evaluate the situation of internal control. According to the needs revealed from internal control assessment, the test is broadened to discover problems, after which the audit report will be produced and recommendations are made.
3. Audit results are communicated to the audited business units.
4. The head of the internal audit department reports to the Audit Committee half-yearly and annually on the results of audit work.
5. Improvements on defects discovered and mitigation of risks are requested and progresses are continuously tracked.

Internal Control Measures

Executive Directors are appointed to the boards of all significant operating subsidiaries and associates to oversee the operations of these companies, which include the participation in their board meetings, approval of budgets and operating strategies, as well as the identification of related risks and formulation of key performance indicators. The management team of each core business unit is responsible for every business in their respective department. Similarly, the management team of each business unit is also responsible for their own conduct and performance. The Group's managing director continuously monitors the Group's performance and reviews the risk conditions of these companies through these measures.

The Group's internal control procedures include a set of comprehensive reporting system, through which informative reports are produced to the management team of each core business unit and to the executive Directors.



Corporate Governance Report

Risk Management and Internal Control (continued)

Internal Control Measures (continued)

As part of the Group's annual business plan, business plans and budgets are prepared annually by individual business units, which are subject to approval by the management team and the managing director. Regular reviews of the differences between projections and actual financial data are conducted, and comparisons of variances against the original budgets are made and approved. In preparing budgets and making revised forecasts, the management will identify, assess and report on the likelihood of significant risks facing the business units and their potential financial impacts.

The executive Directors review the monthly management reports which cover the financial performance and major operating statistics of each business unit, and meet regularly with the operation management team and senior business management team of the business units to review such reports, compare the business performances against the budgets and perform business forecasts as well as material risks assessments and strategies. In addition, the heads of the management team of the core business units meet quarterly with the managing director and their respective team members to review and carry out risk assessments, decisions and related matters of the major issues.

Inside Information

In respect of the compliance with the requirements of the SFO and the Listing Rules to identify, handle and disseminate inside information (having the meaning under the SFO), the Group has adopted the "Inside Information Policy" to ensure that inside information of the Group is to be disseminated in the public in equal and timely manner and in accordance with the applicable laws and regulations. It is the obligation of the Board to ensure the Company's compliance with its disclosure responsibilities. The Company must disclose inside information to the public as soon as reasonably practicable, unless the "safe harbor" provisions under the SFO apply. The Board shall take reasonable precautions for preserving the confidentiality of inside information and the relevant announcement (if applicable) before publication. The Company has implemented procedures and adopted the "Guidelines for Securities Transactions by Relevant Employees". To guard against mishandling of inside information, the Group's securities transactions by the Directors and relevant employees are subject to pre-clearance and the Directors and relevant employees are notified of the regular blackout period and securities dealing restrictions. If there are rumours in the public, concern should be addressed to the disclosure committee of the Company for determination as to whether the nature of such rumours falls into the category of insider information as mentioned above. No persons other than those authorized by the Board shall disclose or clarify any inside information, or attempt to do so, in particular to the media, analysts or investors. Any disclosure of inside information must be made through the electronic publication system operated by the Stock Exchange and the Company's Website.



Risk Management and Internal Control (continued)

Internal Audit

The head of the Group's internal audit department reports to the managing director on the department's daily duties, and directly reports to the Audit Committee and provides independent appraisal of the actual operation, adequacy and effectiveness on the risks management of the business operation of the Group's global business units. The internal audit department formulates its annual audit plan based on the risks assessment method and taking into consideration of the operational mechanism of the Group. The plan is reviewed by the Audit Committee and re-assessed during the year, if necessary, to ensure that sufficient resources are available for use and the objectives of the plan are achieved. The internal audit department is responsible for the assessment of the risk management and internal control systems of the Group, provision of impartial advices on the system, reporting the assessment results to the Audit Committee, managing director and relevant senior management, and following up on all reports to ensure the satisfactory resolution of all issues. In addition, the internal audit department also communicates with the Group's external auditors on a regular basis to facilitate both parties on the understanding of major factors that may affect their relevant scope of work.

Depending on the business nature and risks of the individual business unit, the work of internal audit function includes reviews on finance/information technology and operation, recurring and ad hoc audits and fraud investigations, etc. The external auditor submits to the Audit Committee a report on internal control and related financial reporting issues, and at appropriate times, submits these reports to the managing director and the relevant management teams such as the chief financial officer or accounting manager. Such reports will be reviewed and appropriate actions will be taken accordingly.

For the year under review, the Audit Committee considered that the Group's risk management and internal control systems were adequate and effective.



Independent Auditor's Report

Deloitte.

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TO THE MEMBERS OF YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED

(incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Yue Yuen Industrial (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 72 to 204, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, consolidated statement of 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 December 31, 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 (the "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 ("HKSA") 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 year. 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.



Independent Auditor's Report

Key Audit Matters (continued)

Key audit matter

Impairment assessment of goodwill allocated to the manufacturing and marketing of footwear materials

We identified the impairment assessment of goodwill that has been allocated to the manufacturing and marketing of footwear materials as a key audit matter due to the complexity and significant judgments involved in the management's assessment process.

As disclosed in Note 18 to the consolidated financial statements, the carrying amount of this goodwill was US\$183,650,000 as at December 31, 2016. Determining whether goodwill is impaired required the management's estimation of the value in use of the cash generating units ("CGUs") to which the goodwill has been allocated.

In estimating the value in use of the CGUs, key assumptions used by the management include discount rates, growth rates, budgeted sales and gross margins and their related cash inflows and outflows patterns for the manufacturing and marketing of footwear materials industries of the CGUs. The management also engaged independent valuers to carry out valuation of the value in use of the CGUs of the manufacturing and marketing of footwear materials. The management of the Group determined that there was no impairment in the CGUs containing goodwill during the year ended December 31, 2016.

How our audit addressed the key audit matter

Our procedures in relation to the impairment assessment of goodwill allocated to the manufacturing and marketing of footwear materials included:

- Evaluating the competence, capabilities and objectivity of the independent valuers;
- Evaluating the assumptions underpinning the discounted cash flow models, including growth rates, budgeted sales and gross margin through assessing the reasonableness of forecasted future cash flows by reference to the future business plan of the Group as well as industrial trend;
- Assessing the reasonableness of the discount rates applied in determining the value in use by benchmarking against market data;
- Evaluating the reasonableness of and reperforming the sensitivity analysis provided by the management of the Group to assess the extent of impact on the value in use; and
- Evaluating the historical accuracy of the forecasted future cash flows by comparing them to the actual results in the current year on a sample basis and understanding the causes of any significant variances.



Independent Auditor's Report

Key Audit Matters (continued)

Key audit matter

Impairment assessment of goodwill and intangible assets with indefinite useful lives allocated to the retail and distribution of sportswear products

We identified the impairment assessment of goodwill and intangible assets with indefinite useful lives allocated to the retail and distribution of sportswear products ("Retailing Business"), which represents: (a) goodwill allocated to the Retailing Business; and (b) brand names with indefinite useful lives allocated to the Retailing Business as a key audit matter due to the complexity and significant judgments involved in the assessment process of the management of the Group.

As disclosed in Notes 16 and 18 to the consolidated financial statements, the carrying amounts of these brand names and goodwill as at December 31, 2016 were US\$58,623,000 and US\$77,632,000, respectively. Determining whether goodwill and brand names are impaired requires the management's estimation of the value in use of the CGUs to which the goodwill and brand names have been allocated. As set out in Note 18 to the consolidated financial statements, for the purpose of impairment assessment, the goodwill and brand names of the Group have been allocated by the management to the Retailing Business as a group of CGUs and CGUs of the Retailing Business which are expected to benefit from the brand names to generate future economic benefits, respectively.

How our audit addressed the key audit matter

Our procedures in relation to the impairment assessment of goodwill and intangible assets with indefinite useful lives allocated to the Retailing Business included:

- Evaluating the competence, capabilities and objectivity of the independent valuers;
- Evaluating the assumptions underpinning the discounted cash flow models, including growth rates, budgeted sales and gross margin through assessing the reasonableness of forecasted future cash flows by reference to the future business plan of the Group as well as industrial trend;
- Involving our internal valuation experts to assess the discount rates applied underpinning the discounted cash flow models by performing recalculations based on market data and certain company specific parameters, as well as evaluating the reasonableness of parameters applied by the independent valuers;
- Evaluating the reasonableness of and reperforming the sensitivity analysis provided by the management of the Group to assess the extent of impact on the value in use; and



Independent Auditor's Report

Key Audit Matters (continued)

Key audit matter

Impairment assessment of goodwill and intangible assets with indefinite useful lives allocated to the retail and distribution of sportswear products (continued)

In estimating the value in use of the CGUs, key assumptions used by the management included discount rates, growth rates, budgeted sales and gross margin and their related cash inflows and outflows patterns. The management also engaged independent valuers to determine the discount rate. The management of the Group determined that there was no impairment in the group of CGUs containing goodwill and the CGUs containing brand names during the year ended December 31, 2016; except for an impairment loss of US\$2,114,000 recognized on goodwill that is allocated to the groups of CGUs in the Retailing Business and related to the disposal group classified as held for sale as set out in Note 29 to the consolidated financial statements for the year ended December 31, 2016, which was determined by reference to the expected disposal proceeds from the buyer from its anticipated disposal.

How our audit addressed the key audit matter

- Evaluating the historical accuracy of the forecasted future cash flows by comparing them to the actual results in the current year on a sample basis and understanding the causes for the significant variances.



Independent Auditor's Report

Key Audit Matters (continued)

Key audit matter

How our audit addressed the key audit matter

Assessment of net realizable value of finished goods for the Retailing Business

We identified the assessment of net realizable value of finished goods for the Retailing Business as a key audit matter due to the significant judgments involved in the determination of the net realizable value of these finished goods by the management of the Group.

Our procedures in relation to the assessment of net realizable value of finished goods for the Retailing Business included:

As disclosed in Notes 27 and 9 to the consolidated financial statements, the carrying amount of finished goods for the Retailing Business included in the inventories balances as at December 31, 2016 was US\$632,110,000 and the related net reversal of allowance for inventories arose from the finished goods for the Retailing Business for the year then ended was US\$297,000, respectively.

- Comparing the estimated selling prices of finished goods for the Retailing Business in prior year to their actual selling price in the current year, on a sample basis, to evaluate the reasonableness of methodologies, judgments and assumptions adopted by the management of the Group on the assessment of net realizable value of finished goods for the Retailing Business;
- Evaluating the accuracy of aging analysis of finished goods for the Retailing Business by checking, on a sample basis, to the invoices and other relevant supporting documents to assess the judgment of the management of the Group made for making allowance for obsolete and slow-moving finished goods for the Retailing Business based on the aging analysis; and
- Comparing the actual selling prices of finished goods for the Retailing Business subsequent to year end, on a sample basis, to their carrying amounts to check whether the finished goods for the Retailing Business are stated at the lower of cost and net realizable value.

As explained in Note 4(b)(iii) to the consolidated financial statements, the management of the Group reviewed the aging of the inventories at the end of the reporting period and made allowance for obsolete and slow-moving inventory items identified that were no longer saleable in the market. The management of the Group estimated the net realizable value for those items based primarily on the latest invoice prices and current market conditions.



Independent Auditor's Report

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 Section 90 of the Bermuda Companies Act, 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 HKSAAs 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.



Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with HKSAAs, 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.



Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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 this independent auditor's report is Tse Fung Chun.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
March 24, 2017



Consolidated Income Statement

For the year ended December 31, 2016

	NOTES	2016 US\$'000	2015 US\$'000
Revenue	5	8,480,558	8,434,915
Cost of sales		(6,347,993)	(6,462,637)
Gross profit		2,132,565	1,972,278
Other income		119,141	130,893
Selling and distribution expenses		(834,608)	(777,783)
Administrative expenses		(611,145)	(682,203)
Other expenses		(205,036)	(205,348)
Finance costs	6	(23,257)	(19,387)
Share of results of associates		55,370	51,588
Share of results of joint ventures		11,476	30,583
Other gains and losses	7	7,650	(16,418)
Profit before taxation		652,156	484,203
Income tax expense	8	(76,089)	(66,330)
Profit for the year	9	576,067	417,873
Attributable to:			
Owners of the Company		534,560	390,183
Non-controlling interests		41,507	27,690
		576,067	417,873
Earnings per share	12	US cents	US cents
– Basic		32.47	23.70
– Diluted		32.42	23.36



Consolidated Statement of Comprehensive Income

For the year ended December 31, 2016

	2016 US\$'000	2015 US\$'000
Profit for the year	576,067	417,873
Other comprehensive (expense) income		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Remeasurement of defined benefit obligations, net of tax	(5,262)	–
Gain on revaluation of properties transferred from property, plant and equipment and prepaid lease payments to investment properties, net of tax	5,702	–
	440	–
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on the translation of foreign operations	(49,812)	(46,197)
Fair value gain on available-for-sale investments	8,214	5,769
Share of other comprehensive expenses of associates and joint ventures	(6,723)	(11,738)
Reserve released upon disposal of an associate	(451)	–
Reclassified to profit or loss upon disposal of available-for-sale investments	–	(975)
	(48,772)	(53,141)
Other comprehensive expense for the year	(48,332)	(53,141)
Total comprehensive income for the year	527,735	364,732
Total comprehensive income attributable to:		
Owners of the Company	506,388	355,907
Non-controlling interests	21,347	8,825
	527,735	364,732



Consolidated Statement of Financial Position

At December 31, 2016

	NOTES	2016 US\$'000	2015 US\$'000
Non-current assets			
Investment properties	13	56,147	39,489
Property, plant and equipment	14	2,018,480	1,945,235
Deposits paid for acquisition of property, plant and equipment		105,807	65,078
Prepaid lease payments	15	161,489	168,839
Intangible assets	16	88,367	99,968
Goodwill	17	267,006	275,072
Interests in associates	19	492,208	472,452
Interests in joint ventures	20	367,195	393,477
Amounts due from joint ventures	21	2,516	8,276
Available-for-sale investments	23(a)	36,541	28,017
Held-to-maturity investments	23(b)	10,119	–
Rental deposits and prepayments		18,306	17,307
Deferred tax assets	33	24,573	14,571
		3,648,754	3,527,781
Current assets			
Inventories	27	1,260,147	1,254,152
Trade and other receivables	28	1,591,434	1,413,759
Prepaid lease payments	15	4,692	4,788
Taxation recoverable		2,673	7,304
Investments held for trading	24	17,053	8,930
Derivative financial instruments	25	2,531	261
Pledged bank deposits	26(a)	–	912
Bank balances and cash	26(b)	1,041,486	1,046,599
		3,920,016	3,736,705
Assets classified as held for sale	29	43,004	–
		3,963,020	3,736,705



Consolidated Statement of Financial Position

At December 31, 2016

	NOTES	2016 US\$'000	2015 US\$'000
Current liabilities			
Trade and other payables	30	1,378,482	1,482,042
Taxation payable		29,828	29,650
Derivative financial instruments	25	9,785	20,545
Consideration payable for acquisition of business	39(c)	8,689	11,299
Bank overdrafts	26(c)	–	15,242
Bank borrowings	31	240,070	433,164
		1,666,854	1,991,942
Liabilities associated with assets classified as held for sale	29	33,109	–
		1,699,963	1,991,942
Net current assets		2,263,057	1,744,763
Total assets less current liabilities		5,911,811	5,272,544
Non-current liabilities			
Long-term bank borrowings	32	720,000	370,000
Deferred tax liabilities	33	35,129	36,335
Defined benefit obligations	46(b)	62,686	–
		817,815	406,335
Net assets		5,093,996	4,866,209
Capital and reserves			
Share capital	34	53,211	53,211
Reserves		4,688,255	4,445,354
Equity attributable to owners of the Company		4,741,466	4,498,565
Non-controlling interests	48	352,530	367,644
Total equity		5,093,996	4,866,209

The consolidated financial statements on pages 72 to 204 were approved and authorized for issue by the Board of Directors on March 24, 2017 and are signed on its behalf by:

Tsai Pei Chun, Patty
MANAGING DIRECTOR

Hu Dien Chien
EXECUTIVE DIRECTOR



Consolidated Statement of Changes in Equity

For the year ended December 31, 2016

Equity attributable to owners of the Company

	Share capital US\$'000	Share premium US\$'000	Investments revaluation reserve US\$'000	Special reserve US\$'000 (note a)	Other reserve US\$'000 (note b)	Other revaluation reserve US\$'000 (note c)	Property revaluation reserve US\$'000	Shares held under share award scheme US\$'000	Share award reserve US\$'000	Non-distributable reserve fund US\$'000 (note d)	Translation reserve US\$'000	Retained profits US\$'000	Total US\$'000	Non-controlling interests US\$'000	Total equity US\$'000
At January 1, 2015	53,211	695,536	11,022	(16,688)	50,569	4,551	519	(8,814)	1,417	44,620	114,374	3,448,665	4,398,982	382,461	4,781,443
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	390,183	390,183	27,690	417,873
Exchange difference arising on the translation of foreign operations	-	-	-	-	-	-	-	-	-	-	(27,675)	-	(27,675)	(18,522)	(46,197)
Fair value gain on available-for-sale investments	-	-	5,769	-	-	-	-	-	-	-	-	-	5,769	-	5,769
Share of other comprehensive expenses of associates and joint ventures	-	-	-	-	-	-	-	-	-	-	(11,395)	-	(11,395)	(343)	(11,738)
Reclassified to profit or loss upon disposal of available-for-sale investments	-	-	(975)	-	-	-	-	-	-	-	-	-	(975)	-	(975)
Total comprehensive income (expense) for the year	-	-	4,794	-	-	-	-	-	-	-	(39,070)	390,183	355,907	8,825	364,732
Purchase of shares under share award schemes	-	-	-	-	-	-	-	(2,140)	-	-	-	-	(2,140)	(10,863)	(13,003)
Recognition of equity-settled share-based payments, net of amounts forfeited relating to share options and share awards not yet vested	-	-	-	-	-	-	-	-	1,764	-	-	-	1,764	413	2,177
Exercise of a subsidiary's share options	-	-	-	-	70	-	-	-	-	-	-	-	70	5	75
Realized on expiry of call option	-	-	-	-	(18,272)	-	-	-	-	-	-	18,272	-	-	-
Contribution from non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	5,459	5,459
Realized on disposal of joint ventures	-	-	-	-	-	-	-	-	-	-	(1,639)	1,639	-	-	-
Realized on deregistration of a joint venture	-	-	-	-	-	-	-	-	-	-	3	(3)	-	-	-
Realized on deregistration of subsidiaries	-	-	-	-	-	-	-	-	-	-	(140)	140	-	-	-
Disposal of subsidiaries (Note 41)	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,701)	(5,701)
Acquisition of additional interests in subsidiaries	-	-	-	-	(1,145)	-	-	-	-	-	-	-	(1,145)	967	(178)
Dividends (Note 11)	-	-	-	-	-	-	-	-	-	-	-	(254,873)	(254,873)	-	(254,873)
Dividends paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(13,922)	(13,922)
Transfer to non-distributable reserve fund	-	-	-	-	-	-	-	-	-	6,780	-	(6,780)	-	-	-
At December 31, 2015	53,211	695,536	15,816	(16,688)	31,222	4,551	519	(10,954)	3,181	51,400	73,528	3,597,243	4,498,565	367,644	4,866,209



Consolidated Statement of Changes in Equity

For the year ended December 31, 2016

Equity attributable to owners of the Company

	Share capital US\$'000	Share premium US\$'000	Investments revaluation reserve US\$'000	Special reserve US\$'000 (note a)	Other reserve US\$'000 (note b)	Other revaluation reserve US\$'000 (note c)	Property revaluation reserve US\$'000	Shares held under share award scheme US\$'000	Share award reserve US\$'000	Non-distributable reserve fund US\$'000 (note d)	Translation reserve US\$'000	Retained profits US\$'000	Total US\$'000	Non-controlling interests US\$'000	Total equity US\$'000
At January 1, 2016	53,211	695,536	15,816	(16,688)	31,222	4,551	519	(10,954)	3,181	51,400	73,528	3,597,243	4,498,565	367,644	4,866,209
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	534,560	534,560	41,507	576,067
Remeasurement of defined benefit obligations	-	-	-	-	-	-	-	-	-	-	-	(6,706)	(6,706)	(310)	(7,016)
Deferred tax arising from remeasurement of defined benefits obligations	-	-	-	-	-	-	-	-	-	-	-	1,677	1,677	77	1,754
Gain on revaluation of properties transferred from property, plant and equipment and prepaid lease payments to investment properties	-	-	-	-	-	-	7,603	-	-	-	-	-	7,603	-	7,603
Deferred tax arising from gain on revaluation of properties transferred from property, plant and equipment and prepaid lease payments to investment properties	-	-	-	-	-	-	(1,901)	-	-	-	-	-	(1,901)	-	(1,901)
Exchange difference arising on the translation of foreign operations	-	-	-	-	-	-	-	-	-	-	(30,011)	-	(30,011)	(19,801)	(49,812)
Fair value gain on available-for-sale investments	-	-	8,214	-	-	-	-	-	-	-	-	-	8,214	-	8,214
Share of other comprehensive expenses of associates and joint ventures	-	-	-	-	-	-	-	-	-	-	(6,597)	-	(6,597)	(126)	(6,723)
Reserve released upon disposal of an associate	-	-	-	-	-	-	-	-	-	-	(451)	-	(451)	-	(451)
Total comprehensive income (expense) for the year	-	-	8,214	-	-	-	5,702	-	-	-	(37,059)	529,531	506,388	21,347	527,735
Purchase of shares under share award schemes	-	-	-	-	-	-	-	(3,878)	-	-	-	-	(3,878)	(9,034)	(12,912)
Recognition of equity-settled share-based payments, net of amounts forfeited relating to share options and share awards not yet vested	-	-	-	-	-	-	-	-	739	-	-	-	739	1,094	1,833
Share awards vested	-	-	-	-	-	-	-	4,567	(3,444)	-	-	(1,123)	-	-	-
Repurchase of ordinary share of a subsidiary	-	-	-	-	(790)	-	-	-	-	-	-	-	(790)	(9,163)	(9,953)
Exercise of a subsidiary's share options	-	-	-	-	939	-	-	-	-	-	-	-	939	1,058	1,997
Contribution from non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	3,643	3,643
Acquisition of additional interests in subsidiaries	-	-	-	-	(5,822)	-	-	-	-	-	-	-	(5,822)	(9,969)	(15,791)
Dividends (Note 11)	-	-	-	-	-	-	-	-	-	-	-	(254,675)	(254,675)	-	(254,675)
Dividends paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(14,090)	(14,090)
Transfer to non-distributable reserve fund	-	-	-	-	-	-	-	-	-	17,545	-	(17,545)	-	-	-
At December 31, 2016	53,211	695,536	24,030	(16,688)	25,549	4,551	6,221	(10,265)	476	68,945	36,469	3,853,431	4,741,466	352,530	5,093,996



Consolidated Statement of Changes in Equity

For the year ended December 31, 2016

notes:

- (a) The special reserve of the Group represents the difference between the nominal amount of the shares issued by the Company and the nominal amount of the shares of subsidiaries acquired pursuant to a corporate reorganization in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 1992.
- (b) On April 20, 2010, in consideration of the receipt by the Company of a cash premium of US\$18.3 million, the Company granted an option to a financial institution, pursuant to which the financial institution has the right, from time to time during the period from May 10, 2010 to March 31, 2015, to require the Company to issue up to a maximum of 92,247,920 ordinary shares of HK\$0.25 each in the Company at an agreed exercise price of US\$4.21 per share (the "USD Call Option 2015"). The premium received by the Company was recognized as equity and presented in reserves as "other reserve".

On March 31, 2015, the USD Call Option 2015 remained unexercised and lapsed. Accordingly, the premium received by the Company of approximately US\$18.3 million was derecognized and transferred to the retained profits in that year.

In addition, the Group also accounted for the acquisition of additional interests in subsidiaries and partial disposal of interests in subsidiaries without losing control as equity transactions and the difference between the carrying amount of the non-controlling interests and the fair value of the consideration paid or received was recognized in "other reserve".

- (c) The other revaluation reserve represents the fair value adjustments on intangible assets attributable to the equity interest previously held by the Group at the date of acquisition of subsidiaries. The amount recognized in the other revaluation reserve will be transferred to retained profits upon disposal of these subsidiaries or the relevant assets, whichever is earlier.
- (d) According to the relevant laws in the People's Republic of China (the "PRC"), the subsidiaries of the Group established in the PRC are required to transfer at least 10% of their net profits after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The non-distributable reserve fund can be used to offset the previous years' losses, if any.



Consolidated Statement of Cash Flows

For the year ended December 31, 2016

	NOTE	2016 US\$'000	2015 US\$'000
OPERATING ACTIVITIES			
Profit before taxation		652,156	484,203
Adjustments for:			
Depreciation of property, plant and equipment		251,378	242,175
Finance costs		23,257	19,387
Contributions to defined benefit plan		10,798	–
Loss on disposal of property, plant and equipment		7,752	12,509
Amortization of intangible assets		6,479	7,571
Release of prepaid lease payments		4,786	4,541
Impairment loss on amounts due from joint ventures		4,515	8,523
Net allowance (reversal of allowance) for inventories		1,251	(1,707)
Impairment loss on trade and other receivables		4,299	11,203
Impairment loss on goodwill		2,114	–
Equity-settled share-based payments		1,833	2,177
Impairment loss on rental deposits and prepayments		1,495	–
Loss (gain) on disposal of land leases		509	(8,614)
Impairment loss on property, plant and equipment		378	8,000
Fair value changes on investment properties		181	(375)
Impairment loss on interests in joint ventures		87	3,093
Share of results of associates		(55,370)	(51,588)
Fair value changes on derivative financial instruments		(11,489)	3,497
Share of results of joint ventures		(11,476)	(30,583)
Interest income		(8,289)	(9,297)
Fair value changes on consideration payable for acquisition of business		(2,591)	(5,149)
Gain on disposal of associates		(1,963)	–
Amortization of premium received on currency structured forward contracts		(1,541)	(392)
Dividend income from available-for-sale investments		(888)	(803)
Gain on deemed disposal of an associate		(265)	–
Gain on disposal of subsidiaries	41	(112)	(184)
Gain on investments held for trading		(31)	–
Impairment loss on consideration receivable for disposal of properties		–	2,544
Gain on disposal of joint ventures		–	(3,181)
Gain on disposal of available-for-sale investments		–	(772)
Reversal of impairment loss on amount due from an associate		–	(350)
Operating cash flows before movements in working capital		879,253	696,428
(Increase) decrease in inventories		(59,299)	35,937
Increase in trade and other receivables		(222,751)	(28,004)
(Increase) decrease in rental deposits and prepayments		(7,128)	173
Increase in investments held for trading		(8,092)	(6,277)
(Decrease) increase in trade and other payables		(82)	153,260
Payments to defined benefit plans		(2,752)	–



Consolidated Statement of Cash Flows

For the year ended December 31, 2016

	NOTES	2016 US\$'000	2015 US\$'000
Cash generated from operations		579,149	851,517
Hong Kong Profits Tax paid		(16)	(18)
Overseas taxation paid		(81,347)	(61,345)
Refund of overseas taxation		–	1,512
NET CASH FROM OPERATING ACTIVITIES		497,786	791,666
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(407,617)	(405,695)
Deposit paid for acquisition of property, plant and equipment		(42,532)	(36,369)
Acquisition of held-to-maturity investments		(10,166)	–
Acquisition of interests in associates		(3,672)	–
Prepaid land leases		(1,853)	(2,831)
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	41	(1,169)	2,852
Proceeds from disposal of property, plant and equipment		54,224	14,142
Dividends received from associates		35,683	26,395
Dividends received from joint ventures		28,528	18,713
Interest received		8,336	9,297
Repayment of loan receivable		7,525	–
Proceeds from disposal of land leases		1,825	12,364
Withdrawal of pledged bank deposits		912	–
Dividends received from available-for-sale investments		888	803
Deposit received for an asset held for sale		791	–
Proceeds from disposal of an associate		398	–
Acquisition of business / subsidiaries (net of cash and cash equivalents acquired)	40	–	(2,060)
Placement of pledged bank deposits		–	(912)
Refund of investment cost in a joint venture		–	33,031
Proceeds from disposal of joint ventures		–	18,811
Repayment from joint ventures		–	16,035
Proceeds from disposal of available-for-sale investments		–	5,943
Premium received in currency structured forward contracts		–	2,350
Proceeds from deregistration of joint ventures		–	281
NET CASH USED IN INVESTING ACTIVITIES		(327,899)	(286,850)



Consolidated Statement of Cash Flows

For the year ended December 31, 2016

	2016 US\$'000	2015 US\$'000
FINANCING ACTIVITIES		
Repayment of bank borrowings	(2,940,278)	(2,078,500)
Dividends paid	(254,675)	(254,873)
Interest paid on bank borrowings	(23,257)	(19,387)
Dividends paid to non-controlling interests of subsidiaries	(14,090)	(13,922)
Acquisition of additional interests in subsidiaries	(13,541)	(728)
Purchase of shares under share award schemes	(12,912)	(13,003)
Repurchase of ordinary shares of a subsidiary	(9,953)	–
Bank borrowings raised	3,105,356	1,935,481
Contribution from non-controlling interests	3,643	5,459
Proceeds from issuance of a subsidiary's shares upon exercise of a subsidiary's share options	1,997	75
NET CASH USED IN FINANCING ACTIVITIES	(157,710)	(439,398)
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,177	65,418
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(699)	(5,384)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,031,357	971,323
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	1,042,835	1,031,357
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	1,041,486	1,046,599
Bank overdrafts	–	(15,242)
Bank balances and cash classified as assets held for sale	1,349	–
	1,042,835	1,031,357



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange. 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 consolidated financial statements are presented in United States dollar ("USD"), which is also the functional currency of the Company.

The Company is an investment holding company. The principal activities of the Group are the manufacturing, marketing and retailing of athletic footwear, athletic style leisure footwear, casual and outdoor footwear.

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

New and amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 14	Regulatory Deferral Accounts
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 Amortization
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
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 new and 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.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

2. APPLICATION OF NEW AND REVISED 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 Instruments 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 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts 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 Unrealized Losses ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle ⁵

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

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

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

⁴ Effective for annual periods beginning on or after January 1, 2017.

⁵ Effective for annual periods beginning on or after January 1, 2017 or January 1, 2018, as appropriate.

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 recognized financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortized 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 amortized 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 fair value through other comprehensive income (“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 recognized in profit or loss.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

HKFRS 9 “Financial Instruments” (continued)

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss (“FVTPL”), 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 FVTPL 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 recognized.
- 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.

Application of HKFRS 9 in the future may have an impact on the classification and measurement of the Group’s financial assets. The Group’s available-for-sale investments, including those currently stated at cost less impairment, will either be measured as FVTPL or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortized cost.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

HKFRS 15 “Revenue from Contracts with Customers”

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

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

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

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

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

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

2. APPLICATION OF NEW AND REVISED 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 recognized 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.

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 December 31, 2016, the Group has non-cancellable operating lease commitments of US\$255,356,000 as disclosed in Note 42. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognize 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.

Other than the above, the directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the Group’s consolidated financial statements.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards 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 (the "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 properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the 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 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

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 categorized 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.

The principal accounting policies are set out below.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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.

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 income statement 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.

All intra-group 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 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 recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognized 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 recognized 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 "Financial Instruments: Recognition and Measurement", when applicable, the cost on initial recognition of an investment in an associate or a joint venture.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with HKAS 12 “Income Taxes” and HKAS 19 “Employee Benefits” respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after reassessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognized amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any and is presented separated separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units, or groups of cash-generating units that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

A cash-generating unit ("CGU") to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate or a joint venture is described below.

Interests in associates and joint ventures

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 joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified accounted for in accordance with HKFRS 5. Any retained portion of an investments in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize 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 a joint venture exceeds the Group's investment 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 recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates and joint ventures (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 recognized 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 recognized 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 recognize 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 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 recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognized in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates and joint ventures (continued)

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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 recognized 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.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognized 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 recognized when the goods are delivered and titles have passed.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognized on a straight-line basis over the period of the relevant lease.

Service income is recognized when services are provided.

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.

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair values using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

Advantage has been taken of the transitional relief provided by paragraph 80A of HKAS 16 "Property, Plant and Equipment" from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to September 30, 1995, and accordingly no further revaluation of land and buildings is carried out. Prior to September 30, 1995, the revaluation increase arising on the revaluation of these assets was credited to the revaluation reserve. Any future decrease in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the corresponding revaluation surplus is transferred to retained profits.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized 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 recognized so as to write off the cost or fair value of items of property, plant and equipment, other than construction in progress and freehold land, less their residual values over their estimated useful lives, using either the straight-line method or reducing balance method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized 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 recognized in profit or loss.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment of tangible and intangible assets below).

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives 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 CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) (continued)

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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) 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 recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Leasing

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

The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognized 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 recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

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 amortized over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. 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.

Inventories

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

Provisions

Provisions are recognized 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 the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized 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 (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

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 FVTPL) 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 FVTPL are recognized immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified into financial assets at FVTPL, loans and receivables, available-for-sale ("AFS") investments and held-to-maturity investments. 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 recognized and derecognized 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 amortized 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 recognized on an effective interest basis for debt instruments.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading or 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.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss excludes any dividend or interests earned on the financial assets.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group's management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment.

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 and other receivables, amounts due from joint ventures, pledged bank deposits and bank balances and cash) are measured at amortized cost using the effective interest method, less any impairment (see the accounting policy on impairment of financial assets below).

Interest income is recognized by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

AFS financial assets

AFS financial assets are non-derivatives that are either designated or are not classified as (a) financial assets at FVTPL, (b) held-to-maturity investments or (c) loans and receivables.

Equity securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method, and changes in foreign exchange rates, if applicable are recognized in profit or loss. Dividends on AFS equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment of financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, 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 AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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 default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- disappearance of an active market for that financial asset because of financial difficulties.

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 credit period of 30 days to 90 days and observable changes in national or local economic conditions that correlate with default on receivables.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

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 recognized 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.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

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

In respect of AFS equity investments, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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.

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 Company are recognized at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortized 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 recognized on an effective interest basis.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabilities is held for trading or 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 recognized in profit or loss. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities at amortized cost

Other financial liabilities (including trade and other payables, bank overdrafts, bank borrowings and consideration payable for acquisition of business) are subsequently measured at amortized cost, using the effective interest method.

USD Call Option

USD Call Option issued by the Company that will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments are classified as an equity instrument.

The fair value of USD Call Option on the date of issue is recognized in equity (other reserve). The USD Call Option will be transferred to share capital and share premium upon exercise of the USD Call Option. Where the USD Call Option remains unexercised at the expiry date, the amount previously recognized in other reserve will be released to retained profits.

Derivative financial instruments

Derivatives are initially recognized 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 recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and
- (ii) the amount initially recognized less, when appropriate, cumulative amortization over the guarantee period.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

The Group derecognizes 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.

On derecognition of a financial asset in its entirety, 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 recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Share-based payment arrangements

Equity-settled share-based payment transactions

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options at the grant date and is expensed on a straight-line basis over the vesting period, based on the Group's estimate of share options that will eventually vested, with a corresponding increase in equity.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity.

When the share options are exercised, the amount previously recognized in equity will be transferred to share premium of the relevant group entity. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in equity will be transferred to retained profits.

When the share options are cancelled during the vesting period, the Group accounts for the cancellation as an acceleration of vesting, and recognizes immediately the amount that otherwise would have been recognized for services received over the remainder of the vesting period. The amount previously recognized in equity will be transferred to retained profits upon cancellation.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment arrangements (continued)

Awarded shares granted to employees

When trustee of the share award scheme purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held under share award scheme and deducted from total equity. No gain or loss is recognized on the transactions of the Company's own shares.

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

When the trustee transfers the Company's granted shares to grantees upon vesting, the related costs of the granted shares vested are reversed from shares held under share award scheme. Accordingly, the related expense of the granted shares vested is reversed from share award reserve. The difference arising from such transfer is debited/credited to retained profits. At the end of the reporting period, the Group revises its estimates of the number of shares that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognized in profit or loss with a corresponding adjustment to the share award reserve.

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 taxation" as reported in the consolidated income statement because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, interests in associates and joint ventures, 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 recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize 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.

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 realized, based on tax rates (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.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized 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.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognized at the rates of exchanges prevailing at 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 at 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.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

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 the 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 at the dates of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognized in other comprehensive income.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortization and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefit costs

Payments to defined contribution retirement benefit plans, including state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme, are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).
- Net interest expense or income.
- Remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss. Curtailment gains and losses are accounted for as past service costs. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Remeasurement, comprising actuarial gains and losses, is reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained profits and will not be reclassified to profit or loss.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Short-term and other long-term employee benefits

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognized in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

4. CRITICAL ACCOUNTING JUDGMENTS AND 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 underlying 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 recognized 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.

(a) Critical judgments in applying the entity's accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

(i) *Property interest in land*

Despite the Group has paid substantially the full purchase consideration as detailed in Notes 13, 14 and 15, formal titles of certain of the Group's rights to the use of the land were not yet granted from the relevant government authorities. In the opinion of the directors, the absence of formal title to these land use rights does not impair the carrying value of the relevant properties to the Group.

(ii) *Intangible assets with indefinite useful lives*

The directors of the Company considered that the brand names amounting to US\$58,623,000 (2015: US\$62,010,000), as set out in Note 16, for all practical purposes have indefinite useful lives and are therefore not amortized until their useful lives are determined to be finite. They will be tested for impairment annually.

(iii) *Deferred taxation on investment properties*

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted. As a result, the Group continues to recognize deferred taxes on changes in fair value of investment properties on the basis that the carrying amounts of these properties were recovered through use.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(b) Key sources of estimation uncertainty

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 and liabilities within the next financial year.

(i) **Estimated impairment of goodwill and intangible assets**

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the CGUs to which goodwill and the intangible assets have been allocated. The value in use calculation requires the Group to estimate the present value of the future cash flows expected to arise from the CGUs containing goodwill and the intangible assets using suitable discount rates. Where the expected future cash flows arising from the relevant CGUs differ from the original estimation, an impairment loss may arise. Details of the recoverable amount calculation are disclosed in Note 18.

(ii) **Estimated impairment of trade receivables**

When there is objective evidence of impairment loss, the Group takes into consideration the estimated future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2016, the carrying amount of trade and bills receivable is US\$1,181 million (2015: US\$1,031 million) (net of allowance for doubtful debt of US\$17,264,000 (2015: US\$19,026,000)).

(iii) **Allowance for inventories**

The management of the Group reviews the aging of the inventories amounting to US\$1,260 million (2015: US\$1,254 million) at the end of the reporting period and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production nor saleable in the market. The management estimates the net realizable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete items. Where the actual future cash flows are less than expected, a material impairment loss may arise.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(b) Key sources of estimation uncertainty (continued)

(iv) Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The directors of the Company determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where input of Levels 1 and 2 are not available, the Group engages third party qualified valuers to perform the valuation. The directors of the Company work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments and non-financial instruments. Notes 13 and 39(c) provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

5. REVENUE AND SEGMENTAL INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of resources allocation and assessment of performance focuses specifically on the revenue analysis by principal categories of the Group's business and the profit of the Group as a whole. The principal categories of the Group's business are manufacturing and sales of footwear products ("Manufacturing Business") and retail and distribution of sportswear products ("Retailing Business") which includes the operating and leasing of large scale commercial spaces to retailers and distributors.

Accordingly, the directors of the Company have determined that the Group has only one operating segment, as defined in HKFRS 8 "Operating Segments". The information regarding revenue derived from the principal businesses described above is reported below.

	2016 US\$'000	2015 US\$'000
Revenue		
Manufacturing Business	6,039,334	6,136,737
Retailing Business	2,441,224	2,298,178
	8,480,558	8,434,915



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

5. REVENUE AND SEGMENTAL INFORMATION (continued)

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2016 US\$'000	2015 US\$'000
Athletic shoes	4,110,334	4,015,916
Casual/outdoor shoes	1,230,657	1,365,938
Sports sandals	93,781	94,363
Soles and components	568,310	604,742
Retail sales – shoes and apparel	2,426,532	2,281,214
Others	50,944	72,742
	8,480,558	8,434,915

Geographical information

The Group's revenue is mainly derived from customers located in the United States of America ("US"), Europe and the PRC. The Group's revenue by the geographical location of the customers, determined based on the destination of goods delivered, irrespective of the origin of the goods, is detailed below:

	2016 US\$'000	2015 US\$'000
US	2,090,833	2,124,065
Europe	1,679,875	1,641,498
PRC	3,098,602	2,913,230
Others	1,611,248	1,756,122
	8,480,558	8,434,915



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

5. REVENUE AND SEGMENTAL INFORMATION (continued)

Geographical information (continued)

The Group's business activities are conducted predominantly in the PRC, Vietnam, Indonesia and Myanmar. Information about the Group's non-current assets by the geographical location of the assets is detailed below:

	2016 US\$'000	2015 US\$'000
PRC	1,054,492	1,108,503
Vietnam	649,946	623,527
Indonesia	574,410	473,751
Myanmar	82,207	70,036
Others	87,541	60,099
	2,448,596	2,335,916

note: Non-current assets excluded goodwill, interests in associates, interests in joint ventures, amounts due from joint ventures, deferred tax assets and financial instruments.

Information about major customers

Revenue from customers contributing over 10% of the total annual revenue of the Group are as follows:

	2016 US\$'000	2015 US\$'000
Customer A	1,668,043	1,683,375
Customer B	1,617,234	1,394,509

6. FINANCE COSTS

	2016 US\$'000	2015 US\$'000
Interest on bank borrowings wholly repayable within five years	23,257	19,387



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

7. OTHER GAINS AND LOSSES

	2016 US\$'000	2015 US\$'000
Gain (loss) on changes in fair value of derivative financial instruments	11,489	(3,497)
Fair value changes on consideration payable for acquisition of business	2,591	5,149
Gain on disposal of an associate	1,963	–
Gain on deemed disposal of an associate	265	–
Gain on disposal of subsidiaries (Note 41)	112	184
Impairment loss on amounts due from joint ventures (Note 21)	(4,515)	(8,523)
Impairment loss on goodwill (Note 29)	(2,114)	–
Impairment loss on rental deposits and prepayments (Note 29)	(1,495)	–
Impairment loss on property, plant and equipment (Note 14)	(378)	(8,000)
Fair value changes on investment properties (Note 13)	(181)	375
Impairment loss on interests in joint ventures (Note 29)	(87)	(3,093)
Impairment loss on consideration receivable for disposal of properties	–	(2,544)
Reversal of impairment loss on amount due from an associate	–	350
Gain on disposal of joint ventures	–	3,181
	7,650	(16,418)

8. INCOME TAX EXPENSE

	2016 US\$'000	2015 US\$'000
Taxation attributable to the Company and its subsidiaries:		
Hong Kong Profits Tax (note i)		
– current year	15	–
– underprovision in prior years	1	–
PRC Enterprise Income Tax (“EIT”) (note ii)		
– current year	47,606	36,054
– underprovision in prior years	5,573	1,079
Overseas taxation (note iii & iv)		
– current year	30,482	28,137
– underprovision in prior years	2,326	5,133
	86,003	70,403
Deferred tax credit (Note 33)	(9,914)	(4,073)
	76,089	66,330



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

8. INCOME TAX EXPENSE (continued)

notes:

(i) Hong Kong

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

(ii) PRC

PRC EIT is calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC, except for the followings:

Pursuant to 《財政部、海關總署、國家稅務總局關於深入實施西部大開發戰略有關稅收政策問題的通知》(Caishui [2011] No. 58) and the Bulletin of the State Administration of Taxation [2012] No. 12 issued in 2011 and 2012, during the period from January 1, 2011 to December 31, 2020, any enterprise that is located in the Western Regions of China and engaged in the business activities as listed in the "Catalogue of Encouraged Industries in Western Regions" (the "New Catalogue") as its major business from which the annual revenue in the current year accounts for more than 70% of its total revenue is entitled to pay EIT at the rate of 15% after its application is approved by the in-charge taxation authorities. Certain subsidiaries of the Company are located in the specified provinces of Western Regions of China and engaged in the business activities under the New Catalogue. The directors of the Company consider that the relevant subsidiaries are eligible for the preferential tax rate of 15% in both years.

(iii) Vietnam

As approved by the relevant tax authorities in Vietnam, certain subsidiaries of the Company are entitled to two years' exemption from income taxes followed by four years of a 50% tax reduction based on preferential income tax rates, commencing from the first profitable year.

The applicable tax rates for the subsidiaries in Vietnam range from nil to 20% during the year (2015: range from nil to 22%).

(iv) Overseas

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated October 18, 1999, certain subsidiaries of the Company established in Macau are exempted from Macao Complementary Tax.

Taxation arising in other jurisdictions including Indonesia and Taiwan is calculated at the rates prevailing in the respective jurisdictions, which were 25% (2015: 25%) and 17% (2015: 17%) respectively.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

8. INCOME TAX EXPENSE (continued)

The income tax expense for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2016 US\$'000	2015 US\$'000
Profit before taxation	652,156	484,203
Tax at domestic rates applicable to profits of taxable entities in the countries concerned (note)	61,977	56,375
Tax effect of share of results of associates and joint ventures	(4,147)	(6,315)
Tax effect of expenses not deductible for tax purpose	70,820	86,990
Tax effect of income not taxable for tax purpose	(41,139)	(62,979)
Tax effect of tax losses not recognized	13,117	19,479
Effect of tax holidays granted to PRC subsidiaries	(2,544)	(3,379)
Effect of tax exemption granted to overseas subsidiaries	(29,895)	(30,053)
Underprovision in prior years	7,900	6,212
Income tax expense for the year	76,089	66,330

note: As the Group operates in several different tax jurisdictions, separate reconciliations using the domestic tax rate in each individual tax jurisdiction have been aggregated.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

9. PROFIT FOR THE YEAR

	2016 US\$'000	2015 US\$'000
Profit for the year has been arrived at after charging:		
Employee benefit expense, including directors' emoluments		
– basic salaries, bonus and allowances	1,844,086	1,834,004
– retirement benefit scheme contributions	254,956	272,706
– share-based payments	1,833	2,177
	2,100,875	2,108,887
Release of prepaid lease payments	4,786	4,541
Auditor's remuneration	1,983	1,990
Amortization of intangible assets (included in selling and distribution expenses)	6,479	7,571
Depreciation of property, plant and equipment	251,378	242,175
Loss on disposal of property, plant and equipment (included in other expenses)	7,752	12,509
Research and development expenditure (included in other expenses)	166,343	157,143
Impairment loss recognized on trade and other receivables (included in other expenses)	4,299	11,203
Net allowance for inventories (included in cost of sales) (note ii)	1,251	–
Share of taxation of associates (included in share of results of associates)	13,663	7,533
Share of taxation of joint ventures (included in share of results of joint ventures)	8,126	8,806
Net exchange loss	6,771	–
Loss on disposal of land leases	509	–
and after crediting in other income:		
Interest income	8,289	9,297
Dividend income from available-for-sale investments	888	803
Net exchange gain	–	5,011
Gain on disposal of land leases	–	8,614
Gain on disposal of available-for-sale investments	–	772
Subsidies, rebates and other income from suppliers	16,772	26,547
Reversal of allowance for inventories (included in cost of sales) (note ii)	–	1,707
Gross rental income on investment properties, before deduction of direct operating expenses of approximately US\$398,000 (2015: US\$232,000)	8,173	8,932

notes:

- (i) For the year ended December 31, 2016 and 2015, cost of inventories recognized as an expenses represents cost of sales as shown in the consolidated income statement.
- (ii) Reversal of allowance for inventories of US\$297,000 (2015: US\$1,707,000) for the year ended December 31, 2016 arose from the finished goods for the Retailing Business.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

	Fees US\$'000	Salaries and other benefits US\$'000	Bonus US\$'000	Retirement benefit scheme contributions US\$'000	Share based payments US\$'000	Total US\$'000
For the year ended December 31, 2016						
<i>Executive directors:</i>						
Lu Chin Chu	-	122	645	-	13	780
Kuo Tai Yu (note i)	-	17	-	-	-	17
Chan Lu Min	-	89	181	-	-	270
Tsai Pei Chun, Patty	-	142	206	-	-	348
Lee Shao Wu (note ii)	-	74	52	-	27	153
Liu George Hong-Chih	-	192	248	2	27	469
Tsai Ming-Lun, Ming	-	93	142	-	13	248
Hu Chia-Ho	-	59	20	-	27	106
Lin Cheng-Tien	-	89	290	-	13	392
Sub-total	-	877	1,784	2	120	2,783
<i>Independent non-executive directors:</i>						
Leung Yee Sik	36	-	-	-	-	36
Huang Ming Fu	35	-	-	-	-	35
Chu Li-Sheng	35	-	-	-	-	35
Yen Mun-Gie	35	-	-	-	-	35
Hsieh Yung Hsiang	35	-	-	-	-	35
Sub-total	176	-	-	-	-	176
Total						2,959



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

	Fees US\$'000	Salaries and other benefits US\$'000	Bonus US\$'000	Retirement benefit scheme contributions US\$'000	Share based payments US\$'000	Total US\$'000
For the year ended December 31, 2015						
<i>Executive directors:</i>						
Lu Chin Chu	-	122	646	-	56	824
Kuo Tai Yu (note i)	-	101	387	-	-	488
Kung Sung Yen (note iv)	-	16	110	-	-	126
Chan Lu Min	-	151	181	-	-	332
Li I Nan, Steve (note iv)	-	23	9	-	-	32
Tsai Pei Chun, Patty	-	142	206	-	-	348
Lee Shao Wu	-	96	52	-	56	204
Liu George Hong-Chih	-	215	207	2	56	480
Tsai Ming-Lun, Ming	-	93	142	-	-	235
Hu Chia-Ho (note iii)	-	47	19	-	44	110
Lin Cheng-Tien (note iii)	-	70	291	-	44	405
Sub-total	-	1,076	2,250	2	256	3,584
<i>Independent non-executive directors:</i>						
Leung Yee Sik	36	-	-	-	-	36
Huang Ming Fu	35	-	-	-	-	35
Chu Li-Sheng	35	-	-	-	-	35
Yen Mun-Gie	35	-	-	-	-	35
Hsieh Yung Hsiang	35	-	-	-	-	35
Sub-total	176	-	-	-	-	176
Total						3,760



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

notes:

- (i) Mr. Kuo Tai Yu retired as an executive director on March 2, 2016.
- (ii) Mr. Lee Shao Wu resigned as an executive director on February 6, 2017.
- (iii) Mr. Lin Cheng-Tien and Mr. Hu Chia-Ho were appointed as executive directors on March 20, 2015.
- (iv) Mr. Kung Sung Yen and Mr. Li I Nan, Steve retired as executive directors on March 7, 2015.

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

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

Bonus was determined with reference to the Group's operating results, individual performance and comparable market statistics.

Significant transactions, arrangement and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year are disclosed in Note 47.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2015: four) were directors of the Company whose emoluments are set out above. The emoluments of the remaining two (2015: one) individuals were as follows:

	2016 US\$'000	2015 US\$'000
Basic salaries and other allowances	630	355
Bonus	105	439
Retirement benefit scheme contributions	2	2
Share-based payments	191	82
	928	878



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments (continued)

The emoluments of the remaining two (2015: one) individuals were within the following band:

	2016 Number of employees	2015 Number of employees
HK\$3,000,001 to HK\$3,500,000	1	–
HK\$3,500,001 to HK\$4,000,000	1	–
HK\$6,500,001 to HK\$7,000,000	–	1
	2	1

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 during both years. None of the directors has waived any emoluments during both years.

(c) Emoluments of senior management

None of the senior management of the Group is either a director of the Company or one of the top five highest paid individuals during both years.

The emoluments of the twelve (2015: twelve) individuals of senior management for the year were within the following bands:

	2016 Number of employees	2015 Number of employees
HK\$500,001 to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	3	6
HK\$1,500,001 to HK\$2,000,000	4	3
HK\$2,000,001 to HK\$2,500,000	3	–
HK\$2,500,001 to HK\$3,000,000	–	1
	12	12



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

11. DIVIDENDS

	2016 US\$'000	2015 US\$'000
Dividends recognized as distribution during the year:		
2016 Interim dividend of HK\$0.40 per share (2015: 2015 Interim dividend of HK\$0.40 per share)	84,940	84,969
2015 Final dividend of HK\$0.80 per share (2015: 2014 Final dividend of HK\$0.80 per share)	169,735	169,904
	254,675	254,873

The directors recommend the payment of a final dividend of HK\$1.00 per share for the year ended December 31, 2016. The proposed dividend of approximately HK\$1,645,835,000 will be paid on or before June 20, 2017 to those shareholders whose names appear on the Company's register of members on June 2, 2017.

This proposed dividend is subject to approval by the shareholders at the forthcoming annual general meeting.

12. 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, being profit for the year attributable to owners of the Company	534,560	390,183
Effect of dilutive potential ordinary shares Adjustment to the share of profit of a subsidiary based on dilution of its earnings per share	(513)	–
Earnings for the purpose of diluted earnings per share	534,047	390,183



Notes to the Consolidated Financial Statements

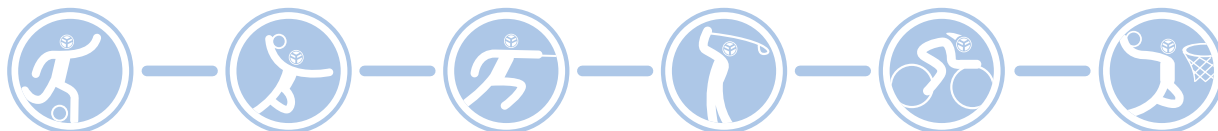
For the year ended December 31, 2016

12. EARNINGS PER SHARE (continued)

	2016	2015
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,646,478,146	1,646,181,054
Effect of dilutive potential ordinary shares:		
– USD Call Option 2015	–	22,746,062
– Unvested awarded shares	641,487	1,450,233
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,647,119,633	1,670,377,349

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the trustee of the share award scheme (see Note 37(b)).

note: The computation of diluted earnings per share for the year ended December 31, 2015 did not assume the exercise of share options of Pou Sheng International (Holdings) Limited ("Pou Sheng"), a listed subsidiary of the Company, because the exercise prices of those options were higher than the average market price of Pou Sheng's shares during that year.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

13. INVESTMENT PROPERTIES

	Completed investment properties US\$'000
FAIR VALUE	
At January 1, 2015	41,382
Unrealized gain on property revaluation recognized in profit or loss	375
Transfer to property, plant and equipment (Note 14)	(2,268)
At December 31, 2015	39,489
Unrealized loss on property revaluation recognized in profit or loss	(181)
Transfer from property, plant and equipment (Note 14)	9,621
Transfer from prepaid lease payments	101
Transfer to property, plant and equipment (Note 14)	(486)
Revaluation gain on transfer from property, plant and equipment and prepaid lease payments	7,603
At December 31, 2016	56,147

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

As at December 31, 2016 and December 31, 2015, the fair value of the Group's investment properties situated in the PRC of US\$38,709,000 (2015: US\$23,024,000) has been arrived at based on a valuation carried out by DTZ Debenham Tie Leung Limited which is independent qualified professional valuers not connected with the Group. The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties. The market yield is determined by reference to the yields derived from analyzing the sales transactions of similar properties in the PRC.

As at December 31, 2016, the fair value of the Group's investment properties situated in the PRC and US of US\$78,000 (2015: US\$78,000) and US\$17,360,000 (2015: US\$16,387,000) respectively, has been determined by the directors of the Company. No valuation has been performed by independent qualified professional valuers. The fair value was determined by the directors of the Company based on market comparable approach, where the prices per unit area of the property are assessed by reference to market evidence of transaction prices for similar properties in the same location and conditions in the PRC and US respectively.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

13. INVESTMENT PROPERTIES (continued)

There has been no change from the valuation technique used in the prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

One of the key inputs used in valuing the investment properties situated in the PRC was the rental yield, which ranged from 7.0% to 9.0% (2015: 7.5% to 9.0%). A slight increase in the market yield used would result in a significant decrease in fair value measurement of the respective investment properties, and vice versa.

One of the key inputs used in valuing the investment property situated in the US was the price per square feet, which ranged from US\$116 to US\$120 (2015: US\$110 to US\$112). A slight increase in the price per square feet used would result in a significant increase in fair value measurement of the respective investment property, and vice versa.

Details of the Group's investment properties and information about the fair value hierarchy as at December 31, 2016 and December 31, 2015 are as follows:

	Level 3		Fair value	
	As at December 31,		As at December 31,	
	2016	2015	2016	2015
	US\$'000	US\$'000	US\$'000	US\$'000
Investment properties located in:				
PRC	38,787	23,102	38,787	23,102
US	17,360	16,387	17,360	16,387

There were no transfers into or out of Level 3 during the year.

As at December 31, 2016, the Group had not obtained the formal land use rights for certain of its investment properties, the carrying value of which at that date was approximately US\$5.3 million (2015: US\$4.8 million). In the opinion of the directors, the absence of formal title to these land use rights does not impair their carrying value to the Group as the Group has paid substantially the full purchase consideration of these land interests and the probability of being evicted on the ground of an absence of formal title is remote.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings US\$'000 (note i)	Freehold land US\$'000	Land and buildings US\$'000 (notes i, ii & iii)	Construction in progress US\$'000	Plant and machinery US\$'000	Leasehold improvements US\$'000	Furniture, fixtures and equipment US\$'000	Motor vehicles US\$'000	Total US\$'000
COST OR VALUATION									
At January 1, 2015	1,442,491	4,496	110,542	85,854	1,240,272	353,843	204,765	35,360	3,477,623
Exchange realignment	(4,040)	-	(698)	-	(114)	(6,813)	(2,796)	(195)	(14,656)
Additions	24,556	-	34,867	101,367	167,706	47,629	27,110	4,335	407,570
Reclassification	101,452	-	-	(103,511)	536	1,275	248	-	-
Transfer from investment properties (Note 13)	-	-	2,268	-	-	-	-	-	2,268
Acquisition of business (Note 40)	-	-	-	-	-	165	286	19	470
Disposals	(1,373)	-	-	(350)	(64,115)	(29,015)	(14,964)	(5,077)	(114,894)
At December 31, 2015	1,563,086	4,496	146,979	83,360	1,344,285	367,084	214,649	34,442	3,758,381
Exchange realignment	(3,598)	-	(483)	(13)	(181)	(10,065)	(1,719)	(207)	(16,266)
Additions	41,460	8,228	-	90,443	170,455	64,125	30,565	3,761	409,037
Reclassified as assets classified as held for sale	-	-	-	-	-	(7,380)	(1,991)	(124)	(9,495)
Reclassification	92,259	-	-	(57,518)	(42,440)	9,766	(2,067)	-	-
Transfer (to) from investment properties (Note 13)	(15,276)	-	486	-	-	-	-	-	(14,790)
Disposal of subsidiaries (Note 41)	(2,874)	-	-	-	(7,296)	(137)	(785)	(315)	(11,407)
Disposals	(25,890)	-	(9,362)	(649)	(119,960)	(60,074)	(24,339)	(2,519)	(242,793)
At December 31, 2016	1,649,167	12,724	137,620	115,623	1,344,863	363,319	214,313	35,038	3,872,667
Comprising:									
At cost	1,649,167	12,724	102,107	115,623	1,344,863	363,319	214,313	35,038	3,837,154
At valuation - 1995	-	-	35,513	-	-	-	-	-	35,513
	1,649,167	12,724	137,620	115,623	1,344,863	363,319	214,313	35,038	3,872,667



Notes to the Consolidated Financial Statements

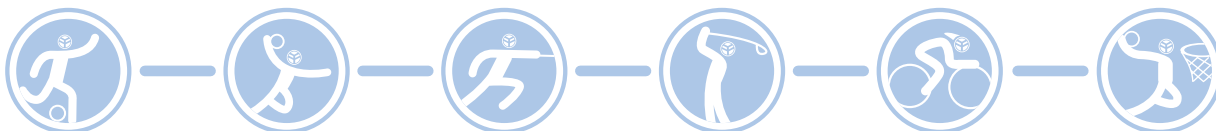
For the year ended December 31, 2016

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings US\$'000 (note i)	Freehold land US\$'000	Land and buildings US\$'000 (notes i, ii & iii)	Construction in progress US\$'000	Plant and machinery US\$'000	Leasehold improvements US\$'000	Furniture, fixtures and equipment US\$'000	Motor vehicles US\$'000	Total US\$'000
DEPRECIATION AND IMPAIRMENT									
At January 1, 2015	464,004	-	29,395	-	768,440	233,780	140,757	23,609	1,659,985
Exchange realignment	(1,374)	-	(121)	-	(59)	(6,004)	(1,117)	(96)	(8,771)
Provided for the year	61,000	-	2,986	-	120,105	32,666	21,975	3,443	242,175
Eliminated on disposals	(878)	-	-	-	(49,911)	(20,331)	(13,025)	(4,098)	(88,243)
Impairment loss recognized (Note 7) (note iv)	8,000	-	-	-	-	-	-	-	8,000
At December 31, 2015	530,752	-	32,260	-	838,575	240,111	148,590	22,858	1,813,146
Exchange realignment	(1,313)	-	(120)	-	(189)	(6,357)	(994)	(192)	(9,165)
Provided for the year	66,681	-	3,241	-	121,527	36,612	19,813	3,504	251,378
Reclassified as assets classified as held for sale	-	-	-	-	-	(6,965)	(1,838)	(104)	(8,907)
Impairment loss recognized in profit or loss upon transfer to assets classified as held for sale (Note 29)	-	-	-	-	-	266	99	13	378
Reclassification	33,222	-	-	-	(37,270)	4,197	(149)	-	-
Transfer to investment properties (Note 13)	(5,655)	-	-	-	-	-	-	-	(5,655)
Eliminated on disposal of subsidiaries (Note 41)	(692)	-	-	-	(4,728)	(17)	(528)	(206)	(6,171)
Eliminated on disposals	(17,966)	-	(1,227)	-	(93,973)	(44,994)	(20,358)	(2,299)	(180,817)
At December 31, 2016	605,029	-	34,154	-	823,942	222,853	144,635	23,574	1,854,187
CARRYING VALUE									
At December 31, 2016	1,044,138	12,724	103,466	115,623	520,921	140,466	69,678	11,464	2,018,480
At December 31, 2015	1,032,334	4,496	114,719	83,360	505,710	126,973	66,059	11,584	1,945,235

notes:

- (i) As at December 31, 2016, the Group had not obtained the formal land use rights and building ownership certificates for certain of the properties included in buildings and land and buildings above, the carrying values of which at that date were approximately US\$130.6 million (2015: US\$105.3 million) and US\$4.3 million (2015: US\$4.5 million), respectively. In the opinion of the directors, the absence of formal title to these land use rights and building ownership certificates does not impair their carrying value to the Group as the Group has paid substantially the full purchase consideration of these land interests and buildings and the probability of being evicted on the ground of an absence of formal title is remote.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

14. PROPERTY, PLANT AND EQUIPMENT (continued)

notes: (continued)

- (ii) As at December 31, 2016, certain of the Group's properties included in land and buildings were carried at their 1995 valuation less subsequent depreciation. If such properties had not been revalued in 1995, the carrying value of these land and buildings would have been US\$20,906,000 (2015: US\$21,617,000) instead of US\$20,416,000 (2015: US\$21,127,000).
- (iii) In the opinion of the directors, the land and building element of certain of properties held by the Group cannot be allocated reliably. Accordingly, they are presented on a combined basis as land and buildings as above. As at December 31, 2016, the carrying value of such properties situated in the PRC and Hong Kong were US\$69,564,000 (2015: US\$79,959,000) and US\$33,902,000 (2015: US\$34,760,000) respectively.
- (iv) During the year ended December 31, 2015, the directors of the Company conducted a review of property, plant and equipment of the Group and determined that the fair value less costs to sell of certain buildings was less than their carrying amount. Accordingly, an impairment loss of US\$8,000,000 was recognized in profit or loss.

Property, plant and equipment, other than freehold land and construction in progress, are depreciated at the following rates per annum:

Land and buildings and Buildings	Over 20 years to 50 years, or the lease terms of the relevant land whichever is shorter	(straight-line method)
Plant and machinery	5% – 15%	(straight-line method)
Leasehold improvements	10% – 50%	(reducing balance method)
Furniture, fixtures and equipment	20% – 30%	(reducing balance method)
Motor vehicles	20% – 30%	(reducing balance method)

15. PREPAID LEASE PAYMENTS

	2016 US\$'000	2015 US\$'000
Analyzed for reporting purposes as:		
Current asset	4,692	4,788
Non-current asset	161,489	168,839
	166,181	173,627

As at December 31, 2016, the Group had not obtained the formal title to certain of these land interests, the carrying value of which at that date was approximately US\$5.1 million (2015: US\$15.2 million). In the opinion of the directors, the absence of formal title to these land interests does not impair their carrying value to the Group as the Group has paid substantially the full purchase consideration of these land interests and the probability of being evicted on the ground of an absence of formal title is remote.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

16. INTANGIBLE ASSETS

	Customer relationship US\$'000	Brand names US\$'000	Licensing agreements US\$'000	Non-compete agreements US\$'000	Total US\$'000
COST					
At January 1, 2015	8,592	75,183	16,021	71,564	171,360
Exchange realignment	(471)	(4,117)	(863)	(3,918)	(9,369)
At December 31, 2015	8,121	71,066	15,158	67,646	161,991
Exchange realignment	(444)	(3,881)	(765)	(3,695)	(8,785)
At December 31, 2016	7,677	67,185	14,393	63,951	153,206
AMORTIZATION AND IMPAIRMENT					
At January 1, 2015	4,956	9,581	3,585	39,833	57,955
Provided for the year	983	–	1,600	4,988	7,571
Exchange realignment	(314)	(525)	(265)	(2,399)	(3,503)
At December 31, 2015	5,625	9,056	4,920	42,422	62,023
Provided for the year	930	–	1,517	4,032	6,479
Exchange realignment	(349)	(494)	(322)	(2,498)	(3,663)
At December 31, 2016	6,206	8,562	6,115	43,956	64,839
CARRYING VALUE					
At December 31, 2016	1,471	58,623	8,278	19,995	88,367
At December 31, 2015	2,496	62,010	10,238	25,224	99,968

All of the intangible assets arose from acquisitions of businesses and were valued as of the respective dates of acquisitions by American Appraisal China Limited, or APAC Asset Valuation and Consulting Limited (“APAC Asset Valuation”), firms of professional valuers, on the following basis:

Customer relationship	The Excess Earnings method under the Income Approach
Brand names	The Relief from Royalty method under the Income Approach
Licensing agreements	The Excess Earnings method under the Income Approach or the Relief from Royalty method under the Income Approach
Non-compete agreements	The “With and Without” method under the Income Approach



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

16. INTANGIBLE ASSETS (continued)

The management of the Group considers customer relationship, licensing agreements and non-compete agreements have finite useful lives and are amortized on a straight-line basis over the following periods:

Customer relationship	8 years
Licensing agreements	10 years
Non-compete agreements	5 to 20 years

The brand names which have been allocated to the Retailing Business are considered by the management of the Group as having indefinite useful lives because they are expected to contribute to the generation of net cash inflows to the Group indefinitely. They are tested for impairment annually and whenever there is an indication that they may have been impaired. Particulars of the impairment assessment are set out in Note 18.

17. GOODWILL

	US\$'000
<hr/>	
COST	
At January 1, 2015	273,549
Arising on acquisition of business (Note 40)	1,546
Eliminated on disposal of subsidiaries (Note 41)	(23)
<hr/>	
At December 31, 2015	275,072
Impairment loss on goodwill (Note 29)	(2,114)
Exchange realignment	(5,952)
<hr/>	
At December 31, 2016	267,006

Particulars regarding impairment assessment on goodwill are disclosed in Note 18.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

18. IMPAIRMENT ASSESSMENT ON GOODWILL AND INTANGIBLE ASSETS

For the purposes of impairment assessment of goodwill, the carrying value of goodwill as detailed in Note 17 have been allocated to three groups of CGUs, as follows:

	Goodwill	
	2016 US\$'000	2015 US\$'000
Manufacturing and marketing of footwear materials ("Unit A")	183,650	183,650
Manufacturing and marketing of sports apparel ("Unit B")	5,724	5,724
Retailing Business – Retail and distribution of sportswear products ("Unit C")	77,632	85,698
	267,006	275,072

Management of the Group determined that there were no impairment in any of its CGUs containing goodwill during the years ended December 31, 2016 and 2015, except for an impairment loss of US\$2,114,000 that is allocated to the group of CGUs in the Retailing Business and related to the disposal group classified as held for sale as set out in Note 29 for the year ended December 31, 2016, which is determined by reference to the expected disposal proceeds from the buyer from its anticipated disposal. The basis of the recoverable amounts of the above CGUs and their principal underlying assumptions are summarized below.

For the purposes of impairment assessment of intangible assets with indefinite useful lives, brand names of the Group as set out in Note 16 are allocated to individual CGUs of Unit C, which consist of the chains of stores in Northern China and Zhejiang Province, the PRC, that are expected to benefit from the brand names to generate future economic benefits.

The recoverable amounts of the above CGUs and group of CGUs have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and discount rates ranging from 13% to 14% (2015: 14%), determined by valuers using Capital Assets Pricing Model. The value in use calculation for Unit A and the discount rate used for Unit C were determined by independent valuers. The cash flows for the next five years are extrapolated using a steady growth rate of 2%, 2% and 3% (2015: 2%, 2% and 3%) for Unit A, Unit B and Unit C respectively. These growth rates are based on the forecasts of the relevant industries and do not exceed the average long-term growth rate for the relevant industries. Other key assumptions for the value in use calculations included budgeted sales and gross margins and their related cash inflows and outflows patterns, estimated based on the units' historical performance and management's expectation of the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the recoverable amounts of Unit A, Unit B and Unit C to fall below their respective carrying amounts.



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19. INTERESTS IN ASSOCIATES

	2016 US\$'000	2015 US\$'000
Cost of investments in associates (note):		
Listed in Hong Kong	57,947	57,947
Listed in Taiwan	92,505	92,505
Unlisted	120,653	111,756
Share of post-acquisition profits and reserves, net of dividends received	221,103	211,744
Less: impairment losses	–	(1,500)
	492,208	472,452
Fair value of listed investments	292,114	296,062

note: Included in cost of investments is goodwill of US\$79,728,000 (2015: US\$79,728,000).

The Group's material associates at the end of the reporting period are Oftenrich Holdings Limited ("Oftenrich"), Prosperous Industrial (Holdings) Limited ("Prosperous") and San Fang Chemical Industry Co. Ltd. ("San Fang"). In the opinion of the directors, the nature of the activities of these associates are strategic to the Group's activities. Oftenrich, Prosperous and San Fang are accounted for using equity method in these consolidated financial statements. Details of the Group's material associates at the end of the reporting period are as follows:

Name of entity	Form of entity	Country/ place of incorporation/ establishment	Principal place of operation	Class of shares held	Proportion of issued and fully paid up share capital held by the Group		Principal activities
					2016	2015	
Oftenrich	Incorporated	Bermuda	PRC	Ordinary	45%	45%	Investment holding and its subsidiaries are engaged in manufacture and sales of safety shoes and casual shoes
Prosperous	Incorporated	Cayman Islands	PRC	Ordinary	30%	30%	Investment holding and its subsidiaries are engaged in manufacture and sales of sports bags
San Fang (note)	Incorporated	Taiwan	Taiwan	Ordinary	44.72%	44.72%	Manufacture and sales of synthetic leather

note: The company is incorporated in Taiwan with its shares listed on the Taiwan Stock Exchange Corporation.



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19. INTERESTS IN ASSOCIATES (continued)

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

Summarized financial information in respect of each of the Group's material associates are set out below. The summarized financial information below represents amount shown in the associates' financial statements prepared in accordance with HKFRSs.

	2016			2015		
	Oftenrich US\$'000	Prosperous US\$'000	San Fang US\$'000	Oftenrich US\$'000	Prosperous US\$'000	San Fang US\$'000
<i>Financial information of consolidated income statement and consolidated statement of comprehensive income</i>						
Revenue	254,426	221,590	161,243	335,079	224,198	169,139
Profit for the year	11,804	19,704	39,373	12,492	15,919	33,347
Other comprehensive income (expense) for the year	-	8	3,561	-	(348)	7,297
Total comprehensive income for the year	11,804	19,712	42,934	12,492	15,571	40,644
Profit for the year, attributable to the Group	5,312	5,911	17,608	5,621	4,776	14,913
Other comprehensive income (expense) for the year, attributable to the Group	-	2	1,593	-	(104)	3,263
Total comprehensive income for the year, attributable to the Group	5,312	5,913	19,201	5,621	4,672	18,176
Dividends received from associate during the year	4,500	3,000	9,102	4,500	3,000	8,162



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19. INTERESTS IN ASSOCIATES (continued)

	2016			2015		
	Oftenrich US\$'000	Prosperous US\$'000	San Fang US\$'000	Oftenrich US\$'000	Prosperous US\$'000	San Fang US\$'000
<i>Financial information of consolidated statement of financial position</i>						
Non-current assets	41,030	44,036	345,607	37,007	43,540	305,136
Current assets	162,718	136,053	92,031	166,321	124,847	83,840
Current liabilities	(74,565)	(45,682)	(84,267)	(75,952)	(43,691)	(68,885)
Non-current liabilities	(24)	–	(96,414)	(21)	–	(85,714)
	129,159	134,407	256,957	127,355	124,696	234,377
Reconciliation to the carrying amount of interest in the associate:						
Net assets attributable to the equity holders of the associate	129,159	134,407	256,957	127,355	124,696	234,377
Proportion of the Group's ownership interest in the associate	45%	30%	44.72%	45%	30%	44.72%
Net assets of the Group's interest in the associate	58,122	40,322	114,911	57,310	37,409	104,813
Goodwill	16,110	11,474	35,586	16,110	11,474	35,586
Carrying amount of the Group's interest in the associate	74,232	51,796	150,497	73,420	48,883	140,399
Fair value of listed associate	–	–	194,949	–	–	203,439

There are no significant restrictions on the ability of associates to transfer funds to the Group in form of cash dividends, or to repay loans or advances made by the Group.



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19. INTERESTS IN ASSOCIATES (continued)

The Group has discontinued recognition of its share of losses of certain associates. The amounts of unrecognized share of results of these associates, extracted from the relevant management accounts of the associates, for the year and cumulatively, are as follows:

	2016 US\$'000	2015 US\$'000
Unrecognized share of (profits) losses of associates for the year	(108)	146

	2016 US\$'000	2015 US\$'000
Cumulative unrecognized share of losses of associates	5,921	6,029

Aggregate information of associates that are not individually material:

	2016 US\$'000	2015 US\$'000
Profit for the year, attributable to the Group	26,539	26,278
Other comprehensive expense for the year, attributable to the Group	(2,560)	(3,941)
Total comprehensive income for the year, attributable to the Group	23,979	22,337
Carrying amount of the Group's interests in these associates	215,683	209,750

20. INTERESTS IN JOINT VENTURES

	2016 US\$'000	2015 US\$'000
Cost of unlisted investments in joint ventures (note i)	240,403	216,891
Share of post-acquisition profits and reserves, net of dividends received	135,775	185,569
Less: impairment losses (note ii)	(8,983)	(8,983)
	367,195	393,477



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20. INTERESTS IN JOINT VENTURES (continued)

notes:

- (i) Included in cost of investments is goodwill of approximately US\$11,327,000 (2015: US\$11,327,000).
- (ii) During the year ended December 31, 2016, impairment loss of US\$87,000 (2015: impairment loss of US\$5,483,000 and a reversal of the impairment loss of US\$2,390,000) was made in respect of the Group's interests in joint ventures. The impairment loss of US\$87,000 for the year ended December 31, 2016 and reversal of impairment loss recognized of US\$2,390,000 for the year ended December 31, 2015 have been determined based on the difference between the proceeds and the carrying value of relevant joint venture.
- (iii) During the year ended December 31, 2015, the Group recognized a gain on disposal of joint ventures of US\$3,181,000 upon the disposal of these joint ventures, calculated as the difference between the net disposal proceeds and the carrying amounts of the joint ventures.

The Group's material joint ventures at the end of the reporting period include Din Tsun Holding Co., Ltd. ("Din Tsun"), Ka Yuen Rubber Factory Limited ("Ka Yuen") and Texas Clothing Holding Corp. ("Texas Clothing"). In the opinion of directors, the nature of the activities of these joint ventures are strategic to the Group's activities. All of the Group's joint ventures are accounted for using equity method in these consolidated financial statements. Details of the Group's material joint ventures at the end of the reporting period are as follows:

Name of entity	Form of entity	Country of incorporation/ establishment	Principal place of operation	Class of shares held	Proportion of issued and fully paid share capital held by the Group		Principal activities
					2016	2015	
Din Tsun	Incorporated	British Virgin Islands ("BVI")	Vietnam	Ordinary	50%	50%	Manufacture and sales of apparels
Ka Yuen	Incorporated	BVI	PRC	Ordinary	50%	50%	Manufacture and sales of rubber soles
Texas Clothing	Incorporated	US	US	Ordinary	49.99%	49.99%	Design, imports and sales of apparels

Under the relevant shareholders' agreements, decisions on certain matters of these entities require unanimous consent from all of the relevant joint venture partners. In the opinion of the directors, these certain matters relate to the activities that significantly affect the returns of each of these entities. Accordingly, neither the Group nor the other relevant joint venture partners has the ability to control the respective entities unilaterally and each of these entities is therefore considered as jointly controlled by the Group and the relevant joint venture partners. As the Group has rights to the net assets of each of these joint arrangement, the above entities are accounted for as joint ventures of the Group.

The above table lists the joint ventures of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other joint ventures would, in the opinion of the directors, result in particulars of excessive length.



Notes to the Consolidated Financial Statements

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20. INTERESTS IN JOINT VENTURES (continued)

Summarized financial information in respect of each of the Group's material joint ventures is set out below. The summarized financial information below represents amount shown in the joint ventures' financial statements prepared in accordance with HKFRSs.

	2016			2015		
	Din Tsun US\$'000	Ka Yuen US\$'000	Texas Clothing US\$'000	Din Tsun US\$'000	Ka Yuen US\$'000	Texas Clothing US\$'000
<i>Financial information of consolidated income statement and consolidated statement of comprehensive income</i>						
Revenue	257,129	99,177	337,073	245,759	126,400	331,076
(Loss) profit for the year	(1,171)	13,224	19,417	(346)	13,591	17,208
Other comprehensive income (expense) for the year	303	–	4,661	(780)	–	(2,929)
Total comprehensive (expense) income for the year	(868)	13,224	24,078	(1,126)	13,591	14,279
(Loss) profit for the year, attributable to the Group	(586)	6,612	9,707	(173)	6,796	8,602
Other comprehensive income (expense) for the year, attributable to the Group	152	–	2,330	(390)	–	(1,464)
Total comprehensive (expense) income for the year, attributable to the Group	(434)	6,612	12,037	(563)	6,796	7,138
Dividends received from joint venture during the year	–	28,491	–	–	12,500	–
<i>The above (loss) profit for the year include the following:</i>						
Depreciation and amortization	(4,216)	(2,395)	(5,766)	(4,223)	(2,488)	(5,290)
Interest income	55	58	–	43	42	–
Interest expense	(87)	(17)	(1,736)	(59)	(50)	(1,672)
Income tax expense	(762)	(577)	(7,134)	(129)	(640)	(7,606)



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20. INTERESTS IN JOINT VENTURES (continued)

	2016			2015		
	Din Tsun US\$'000	Ka Yuen US\$'000	Texas Clothing US\$'000	Din Tsun US\$'000	Ka Yuen US\$'000	Texas Clothing US\$'000
<i>Financial information of consolidated statement of financial position</i>						
Non-current assets	29,119	10,888	52,035	20,770	11,209	50,632
Current assets	117,172	71,163	140,790	145,929	61,624	164,201
Current liabilities	(42,465)	(32,954)	(26,781)	(58,523)	(14,222)	(30,462)
Non-current liabilities	(1)	(1,261)	(24,386)	(3)	–	(66,791)
Non-controlling interests	(4,036)	–	–	(7,516)	–	–
	99,789	47,836	141,658	100,657	58,611	117,580
<i>The above amounts of assets and liabilities include the following:</i>						
Cash and cash equivalents	36,713	22,935	12,717	49,932	19,422	11,975
Current financial liabilities (excluding trade and other payables and provision)	(3,000)	–	–	–	–	–
<i>Reconciliation to the carrying amount of interest in the joint venture:</i>						
Net assets attributable to the equity holders of the joint venture	99,790	47,836	141,658	100,657	58,611	117,580
Proportion of the Group's ownership interest in the joint venture	50%	50%	49.99%	50%	50%	49.99%
Net assets of the Group's interest in the joint venture	49,895	23,918	70,815	50,329	29,306	58,778
Other adjustments	–	–	11,033	–	–	11,033
Carrying amount of the Group's interest in the joint venture	49,895	23,918	81,848	50,329	29,306	69,811

There are no significant restrictions on the ability of joint ventures to transfer funds to the Group in form of cash dividends, or to repay loans or advances made by the Group.



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20. INTERESTS IN JOINT VENTURES (continued)

Unrecognized share of losses of joint ventures is as follows:

	2016 US\$'000	2015 US\$'000
The unrecognized share of losses of joint ventures for the year	1,304	335
Cumulative unrecognized share of losses of joint ventures	7,044	5,740

Aggregate information of joint ventures that are not individually material:

	2016 US\$'000	2015 US\$'000
(Loss) profit for the year, attributable to the Group	(4,257)	15,358
Other comprehensive expense for the year, attributable to the Group	(8,240)	(9,102)
Total comprehensive (expense) income for the year, attributable to the Group	(12,497)	6,256
Carrying amount of the Group's interests in these joint ventures	211,534	244,031



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21. AMOUNTS DUE FROM JOINT VENTURES

Included in the balance are loans, net of impairment loss, of US\$2,516,000 (2015: US\$7,223,000) receivable from certain joint ventures which are secured by the equity interests in the relevant joint ventures held by the other joint venture partners, interest bearing at the prevailing lending rate quoted by the People's Bank of China ("PBOC") and have no fixed terms of repayment. As at December 31, 2015, remaining amounts of US\$1,053,000 included in the balance were unsecured, interest-free and had no fixed repayment terms.

The directors consider that the fair value of the loans to joint ventures approximate to their carrying amounts.

Before offering any new loans to joint ventures, the Group assesses the joint ventures' credit qualities and the intended usages of the loans by the joint ventures. The recoverability of the loans is reviewed throughout the tenure of the loans.

Included in the carrying amount of loans to joint ventures as at December 31, 2016 were impairment losses of US\$4,515,000 (2015: US\$8,523,000) made during the year where there is objective evidence as observed by the directors that, as a result of (i) the Group's past experience of collecting payments, (ii) significant financial difficulty of the joint ventures and/or (iii) it becoming probable that the joint venture will enter winding up respectively, estimated future cash flows have been affected and the recoverability of cash flows have been reduced. Other than the above, no provision for impairment loss for other outstanding balance at the end of the reporting period was considered necessary since there has been no past default history in respect of other joint ventures and the directors considers these counterparties are of good credit qualities based on their regular assessments.

All the amounts are not expected to be repaid within one year and are therefore classified as non-current.

22. INTERESTS IN SUBSIDIARIES

The Company's non-wholly-owned subsidiaries that have material non-controlling interests at the end of the reporting period include Pou Sheng and its subsidiaries (collectively referred to as the "Pou Sheng Group"). The table below shows details of the Pou Sheng Group that have material non-controlling interests:

Name of subsidiary	Principal place of operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	2016	2015	2016	2015
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Pou Sheng Group	PRC	37.59%	38.73%	33,682	24,980	319,980	332,464
Individually immaterial subsidiaries with non-controlling interests				7,825	2,710	32,550	35,180
Total				41,507	27,690	352,530	367,644



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22. INTERESTS IN SUBSIDIARIES (continued)

Summarized financial information in respect of the Pou Sheng Group that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intra-group eliminations and the effect of acquisition of subsidiaries using merger accounting.

	2016 US\$'000	2015 US\$'000
<i>Financial information of consolidated income statement and consolidated statement of comprehensive income</i>		
Revenue	2,443,730	2,300,174
Net operating expenses	(2,353,968)	(2,237,816)
Profit for the year	89,762	62,358
Profit for the year attributable to owners of Pou Sheng	88,403	64,498
Profit for the year attributable to owners of Pou Sheng, attributable to		
– owners of the Company	54,721	39,518
– non-controlling interests	33,682	24,980
	88,403	64,498
Other comprehensive expense, attributable to		
– owners of the Company	(31,746)	(27,932)
– non-controlling interests	(19,539)	(17,656)
	(51,285)	(45,588)
Total comprehensive income, attributable to		
– owners of the Company	22,975	11,586
– non-controlling interests	14,143	7,324
	37,118	18,910
Dividends paid to non-controlling interests of the Pou Sheng Group	3,820	4,893



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22. INTERESTS IN SUBSIDIARIES (continued)

	2016 US\$'000	2015 US\$'000
<i>Financial information of consolidated statement of financial position</i>		
Non-current assets	351,922	348,491
Current assets	1,092,045	952,734
Current liabilities	(537,322)	(397,212)
Non-current liabilities	(24,820)	(27,875)
Non-controlling interests	(4,309)	(6,897)
	877,516	869,241
Equity attributable to owners of Pou Sheng, attributable to		
– owners of the Company	557,536	536,777
– non-controlling interests	319,980	332,464
	877,516	869,241
<i>Financial information of consolidated statement of cash flows</i>		
Net cash from operating activities	5,747	145,662
Net cash used in investing activities	(59,899)	(40,644)
Net cash from (used in) financing activities	99,722	(118,667)
Effect of foreign exchange rate changes	(2,802)	(2,129)
Net cash inflow (outflow)	42,768	(15,778)

note: During the year ended December 31, 2016, Pou Sheng Group acquired entire interest of PCG Bros (Holdings) Co. Limited and its subsidiaries ("PCG Bros Group") from a subsidiary of the Company. PCG Bros Group is principally engaged in sports marketing and organization of sports events in Taiwan. Pou Sheng Group and PCG Bros Group are both under the control of the Group before and after the date of acquisition, and that control is not transitory. Pou Sheng Group and PCG Bros Group are regarded as continuing entities as at the date of business combinations and hence the acquisition has been accounted for as combination of entities under common control by applying the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

Therefore, accounting for the effect of acquisition of PCG Bros Group using merger accounting, (1) the net operating expenses, profit and net cash inflow for the year ended December 31, 2016 of Pou Sheng Group would be US\$2,357,998,000 (2015: US\$2,239,264,000), US\$85,732,000 (2015: US\$60,910,000) and US\$40,784,000 (2015: net cash outflow US\$13,794,000), respectively; and (2) the consolidated net assets of Pou Sheng Group as at 31 December, 2015 would be US\$880,675,000.



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23. AVAILABLE-FOR-SALE INVESTMENTS/HELD-TO-MATURITY INVESTMENTS

(a) Available-for-sale investments comprise:

	2016 US\$'000	2015 US\$'000
Listed investments:		
– Equity securities listed in Hong Kong	8,054	6,933
– Equity securities listed overseas	28,177	21,084
	36,231	28,017
Unlisted investments:		
– Private entity	310	–
	36,541	28,017

All the listed investments are stated at their fair value, determined by reference to bid prices quoted in active markets.

The unlisted investments are equity security issued by private entity incorporated overseas.

The unlisted investments are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates was so significant that the directors of the Company are of the opinion that their fair values could not be measured reliably.

The management of the Group considered that the available-for-sale investments as at the end of the reporting period are held for strategic purpose and are not to be disposed of in the foreseeable future.

(b) Held-to-maturity investments comprise:

	2016 US\$'000	2015 US\$'000
Listed bond securities at amortized cost:		
– listed on the Stock Exchange with fixed coupon interests ranging from 2.625% to 7.000% per annum and maturity dates ranging from March 19, 2018 to November 10, 2020	8,187	–
– listed on Singapore Exchange Limited with a fixed coupon interest ranging from 2.875% to 6.125% per annum and maturity date on August 27, 2018 to July 16, 2020	1,281	–
– listed on London Stock Exchange Group plc with a fixed coupon interest at 5.875% per annum and maturity date on June 24, 2020	651	–
	10,119	–



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24. INVESTMENTS HELD FOR TRADING

Investments held for trading include:

	2016 US\$'000	2015 US\$'000
Unlisted overseas funds	17,053	8,930

At the end of the reporting period, the held for trading investments are carried at their fair values determined by reference to prices provided by the respective issuing financial institutions.

25. DERIVATIVE FINANCIAL INSTRUMENTS

	notes	2016		2015	
		Assets US\$'000	Liabilities US\$'000	Assets US\$'000	Liabilities US\$'000
Foreign currency derivatives:					
Currency structured forward contracts	(i)	–	9,785	–	19,777
Forward contracts	(ii)	1,716	–	261	768
Interest-rate swap	(iii)	815	–	–	–
		2,531	9,785	261	20,545

notes:

(i) Currency structured forward contracts

The Group has entered into a number of USD/Renminbi ("RMB") structured forward contracts in which the Group is able to sell USD/buy RMB on a monthly basis at more favorable exchange rates than the market plain forward rates or spot rates prevailing on the trade dates of the transactions under certain RMB exchange rate scenario. However, the Group is obligated to sell USD/buy RMB for certain specified amounts at pre-determined exchange rates which are less favorable than the then prevailing market spot rates on settlements under certain scenario of depreciation of RMB against USD. As at December 31, 2016, the Group had a total outstanding USD/RMB structured forward contracts of US\$188 million which will be settled on net basis on a monthly basis up to September 2017.

(ii) Forward contracts

Major terms of foreign currency forward contracts are as below:

Aggregate notional amount	Maturity	Forward exchange rates
As at December 31, 2016		
US\$116 million	September 2017	Sell USD/buy Indonesia Rupiah ("IDR") at 13,725 to 14,389
As at December 31, 2015		
US\$30 million	January 2016	Sell USD/buy RMB at 6.4190 to 6.4465
US\$10 million	January 2016	Sell RMB/buy USD at 6.4343



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25. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

notes: (continued)

(iii) Interest rate swap

Aggregate notional amount	Maturity	Swaps
As at December 31, 2016		
US\$50 million	March 2021	From 0.84% to London Interbank Offered Rate ("LIBOR")

The above currency structured forward contracts and forward contracts are measured at fair value with reference to 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.

The interest rate swap is measured at fair value with reference to discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and yield curve of relevant interest rates and contracted interest rates, discounted at a rate that reflects the credit risk of the counterparties.

26. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH/BANK OVERDRAFTS

(a) Pledged bank deposits

As at December 31, 2015, the pledged bank deposits with maturity of less than one year were placed with a bank for certain banking facilities granted to a subsidiary of the Company and carried interest at fixed interest rate of 2% per annum. The pledged bank deposits had been released upon the settlement of the relevant bank facilities during the year ended December 31, 2016.

(b) Bank balances and cash

The bank balances and short-term bank deposits are interest-bearing at market interest rate and are with an original maturity of three months or less. The bank deposits carry interest at rates ranged from 0.01% to 12.00% (2015: 0.01% to 9.00%) per annum during the year.

(c) Bank overdrafts

During the year ended December 31, 2016, the bank overdrafts were unsecured and carried interest at market rates ranging from 4.13% to 4.57% (2015: 4.35% to 5.88%) per annum.



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27. INVENTORIES

	2016 US\$'000	2015 US\$'000
Raw materials	238,522	252,609
Work in progress	138,325	150,213
Finished goods	883,300	851,330
	1,260,147	1,254,152

As at the end of the reporting period, inventories of US\$632,110,000 (2015: US\$594,113,000) represented finished goods for the Retailing Business.

28. TRADE AND OTHER RECEIVABLES

	2016 US\$'000	2015 US\$'000
Trade and bills receivables	1,198,362	1,049,558
Less: allowance for doubtful debts	(17,264)	(19,026)
	1,181,098	1,030,532
Other receivables (note i)	123,594	125,904
Rental deposits, unamortized mould costs and prepayments	117,563	108,863
Deposits paid to trade suppliers	80,092	54,062
Value-added tax recoverable	89,087	86,795
Loan receivable (note ii)	–	7,603
	1,591,434	1,413,759



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

28. TRADE AND OTHER RECEIVABLES (continued)

notes:

- (i) Included in other receivables are amounts due from associates, joint ventures and connected parties of US\$8,910,000 (2015: US\$7,166,000), US\$10,053,000 (2015: US\$8,033,000) and US\$6,572,000 (2015: US\$7,640,000), respectively. Except for an aggregate amount of US\$3,513,000 (2015: US\$4,329,000) due from certain joint ventures and an amount of US\$635,000 (2015: nil) due from an associate which carry variable interest rates ranging from 5.00% to 6.72% (2015: 5.00% to 6.72%) and 2.43% (2015: nil) per annum respectively, the remaining amounts are unsecured, interest-free and repayable on demand. The remaining balance represents mainly the deposits paid for non-trade purchases and advances to suppliers for purchase of materials. During the year ended December 31, 2016, impairment loss of US\$2,027,000 (2015: US\$4,480,000) was made to other receivables.
- (ii) As at December 31, 2015, the balance represented loan receivable due from a third party which carried fixed interest at 3% per annum.

The collaterals for the secured loan were 39,634,662 shares of HK\$0.01 each of Pou Sheng which were issuable for the acquisition of a business in prior years. The Group was not permitted to sell or repledge the collaterals in the absence of default by the borrower.

During the year ended December 31, 2016, the loan receivable was fully settled.

The Group allows credit period ranging from 30 days to 90 days which are agreed with each of its trade customers. Included in trade and other receivables are trade and bills receivables, net of allowance for doubtful debts, of US\$1,181,098,000 (2015: US\$1,030,532,000) and an aged analysis based on invoice date at the end of the reporting period, which approximated to the respective revenue recognition dates, is as follows:

	2016 US\$'000	2015 US\$'000
0 to 30 days	690,268	671,157
31 to 90 days	446,609	343,216
Over 90 days	44,221	16,159
	1,181,098	1,030,532

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed twice a year. Majority of the trade receivables that are neither past due nor impaired have no default payment history.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

28. TRADE AND OTHER RECEIVABLES (continued)

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of US\$40,199,000 (2015: US\$58,772,000) which were past due at the end of the reporting period but for which the Group has not provided for impairment loss because management is of the opinion that the fundamental credit quality of these customers has not deteriorated. The Group does not hold any collateral over these balances. The average age of these receivables is approximately 73 days (2015: 71 days).

Movement in the allowance account for doubtful debts during the year is as follows:

	2016 US\$'000	2015 US\$'000
Balance at beginning of the year	19,026	16,592
Impairment losses recognized on receivables	3,037	8,661
Amounts written off as uncollectible	(4,034)	(4,289)
Amounts recovered during the year	(765)	(1,938)
Balance at end of the year	17,264	19,026

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of US\$17,264,000 (2015: US\$19,026,000) which have either been placed under liquidation or in severe financial difficulties. The impairment recognized represents the difference between the carrying amount of the specific trade receivable and the present value of the expected recoverable amount. The Group does not hold any collateral over these balances.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

29. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

	2016 US\$'000	2015 US\$'000
Amount comprises:		
Interest in a joint venture (note i)	1,438	–
Assets related to the Disposal Group (note ii)	41,566	–
Total assets classified as held for sale	43,004	–
Liabilities associated with the Disposal Group (note ii)	33,109	–

notes:

- (i) During the year ended December 31, 2016, the Group entered into a disposal framework agreement with the joint venture partners of a joint venture, pursuant to which the Group agreed to dispose of its investment in the relevant joint venture (the "JV Disposal") for a consideration of US\$1,438,000. Therefore, the interest in the joint venture, which is expected to be sold within twelve months from the end of the reporting period, has been classified as an asset held for sale and is presented separately in the consolidated statement of financial position.

A deposit of US\$791,000 in relation to the JV Disposal has been received by the Group in the current year and the amount is included in trade and other payables in the consolidated statement of financial position. The net proceeds of the JV Disposal are less than the carrying amount of the relevant asset, and accordingly, impairment loss of US\$87,000 has been recognized.

At the date of this report, the transaction has not yet been completed.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

29. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE (continued)

notes: (continued)

- (ii) During the year ended December 31, 2016, the Group entered into a disposal agreement with a non-controlling shareholder of Profit Concept Group Limited ("Profit Concept"), pursuant to which the Group agreed to dispose of its entire interests in Profit Concept and its subsidiaries (the "Disposal Group"), which are principally engaged in retailing of sportswear, for a consideration of US\$4,313,000. Therefore, the assets and liabilities attributable to the Disposal Group, which are expected to be sold within twelve months from the end of reporting period, have been classified as assets held for sale and liabilities associated with assets classified as held for sale respectively, and are presented separately in the consolidated statement of financial position.

The net proceeds of the anticipated disposal are less than the carrying amount of the relevant assets, and accordingly, impairment loss on goodwill of US\$2,114,000, rental deposits and prepayments of US\$1,495,000 and property, plant and equipment of US\$378,000 have been recognized, immediately before the initial classification of the assets classified as held for sale during the year.

The major classes of assets and liabilities of the Disposal Group at the end of the reporting period are as follows:

	US\$'000
Property, plant and equipment	588
Rental deposits and prepayments	2,323
Inventories	15,132
Trade and other receivables	21,522
Tax recoverable	652
Bank balances and cash	1,349
Total assets classified as held for sale	41,566
Trade and other payables representing total liabilities associated with assets classified as held for sale	(33,109)

At the date of this report, the transaction has not yet been completed.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

30. TRADE AND OTHER PAYABLES

	2016 US\$'000	2015 US\$'000
Trade and bills payables	444,907	513,238
Accrued staff costs	485,641	542,940
Other tax payables	18,778	12,428
Utility and rental payables	6,466	6,203
Accrued expenses	96,515	80,207
Other payables (note i)	175,245	173,379
Amounts due to connected parties (note ii)	66,783	63,018
Construction payable	17,289	22,966
Receipts in advance from customers	66,858	67,663
	1,378,482	1,482,042

notes:

- (i) Included in other payables are amounts due to associates, joint ventures of US\$286,000 (2015: US\$361,000) and US\$1,390,000 (2015: US\$2,933,000) respectively. The amounts relate to current accounts are unsecured, interest-free and repayable on demand. The remaining balances represented mainly deposits received from customers and value-added tax payables.
- (ii) The amounts due to connected parties are unsecured, interest-free and repayable on demand, except for the amount of US\$41,691,000 (2015: US\$44,099,000) which carries fixed interest rate of 3.4% (2015: 4.0%) per annum.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

30. TRADE AND OTHER PAYABLES (continued)

An aged analysis of trade and bills payables based on the invoice date at the end of the reporting period is as follows:

	2016 US\$'000	2015 US\$'000
0 to 30 days	331,159	375,523
31 to 90 days	101,695	113,169
Over 90 days	12,053	24,546
	444,907	513,238

The credit period on purchases of goods ranged from 30 days to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

31. BANK BORROWINGS

	2016 US\$'000	2015 US\$'000
Current portion of long-term bank borrowings (Note 32)	–	350,000
Short-term bank borrowings	240,070	83,164
Amount classified as current liabilities	240,070	433,164

The Group's bank borrowings classified as current liabilities are unsecured and variable rate borrowings.

The Group's variable rate borrowings carry interest at a premium over LIBOR, Hong Kong Interbank Offered Rate ("HIBOR") or prevailing lending rate quoted by PBOC, as appropriate.

The range of effective interest rates on the Group's bank borrowings classified as current liabilities during the year are as follows:

	2016	2015
Effective interest rate:		
Variable rate borrowings	1.00% to 11.90%	1.05% to 5.60%



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

32. LONG-TERM BANK BORROWINGS

	2016 US\$'000	2015 US\$'000
The long-term bank borrowings are unsecured and repayable:		
Within one year	–	350,000
In more than one years, but not exceeding five years	720,000	370,000
	720,000	720,000
Less: Amount due within one year included in current liabilities (Note 31)	–	(350,000)
Amount due after one year	720,000	370,000

All long term borrowings are variable rate borrowings and the borrowings carry interest at a premium over LIBOR or HIBOR, as appropriate. Interest is recalculated every three months.

The ranges of effective interest rates on the Group's long-term bank borrowings during the year are as follows:

	2016	2015
Effective interest rate:		
Variable rate borrowings	1.56% to 2.15%	1.11% to 1.69%



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For the year ended December 31, 2016

33. DEFERRED TAXATION

The major deferred tax liabilities (assets) recognized and movements thereon during the year are as follows:

	Accelerated tax depreciation	Revaluation of investment properties	Undistributed earnings of PRC and overseas entities	Fair value adjustments of intangible assets on business combinations	Tax losses	Accrual for severance allowance	Total
	US\$'000	US\$'000	US\$'000 (note)	US\$'000	US\$'000	US\$'000	US\$'000
At January 1, 2015	(4,308)	5,310	3,101	28,287	(1,003)	(4,110)	27,277
(Credit) charge to profit or loss (Note 8)	(3,122)	209	-	(1,886)	751	(25)	(4,073)
Exchange realignment	-	-	(163)	(1,464)	187	-	(1,440)
At December 31, 2015	(7,430)	5,519	2,938	24,937	(65)	(4,135)	21,764
(Credit) charge to profit or loss (Note 8)	(5,916)	(52)	-	(1,613)	64	(2,397)	(9,914)
Charge (credit) to other comprehensive income	-	1,901	-	-	-	(1,754)	147
Exchange realignment	-	-	(161)	(1,281)	1	-	(1,441)
At December 31, 2016	(13,346)	7,368	2,777	22,043	-	(8,286)	10,556

note: These entities include subsidiaries, associates and joint ventures.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

33. DEFERRED TAXATION (continued)

The following is an analysis of the deferred tax balances for financial reporting purpose:

	2016 US\$'000	2015 US\$'000
Deferred tax assets	(24,573)	(14,571)
Deferred tax liabilities	35,129	36,335
	10,556	21,764

As at December 31, 2016, the Group had unused tax losses of approximately US\$532.1 million (2015: US\$507.5 million) available for offset against future profits. A deferred tax asset has been recognized in respect of such tax losses of approximately US\$0.3 million (2016: nil) as at December 31, 2015. No deferred tax asset has been recognized in respect of the remaining unused tax losses of approximately US\$532.1 million (2015: US\$507.2 million) due to the unpredictability of future profit streams. Except for the unused tax losses of approximately US\$188.1 million (2015: US\$192.3 million) that will expire between 2016 and 2020, other unused tax losses may be carried forward indefinitely.

Deferred taxation has not been provided in respect of certain undistributed earnings of the Company's PRC subsidiaries, associates and joint ventures arising after January 1, 2008, because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Under the relevant laws of PRC, withholding tax is also imposed on dividend declared in respect of profits earned by the subsidiaries of the Company. At December 31, 2016, the aggregate amount of undistributed earnings of the Company's PRC subsidiaries in respect of which the Group has not provided for dividend withholding tax was approximately US\$402.6 million (2015: US\$354.1 million).

Under the relevant laws of Taiwan, withholding tax is also imposed on dividend declared in respect of profits earned by the subsidiaries of the Company. At December 31, 2016, the aggregate amount of temporary differences associated with undistributed earnings of those subsidiaries for which deferred tax liabilities have not been recognized was US\$1.0 million (2015: US\$1.6 million).

On October 24, 2012, the Ministry of Finance of Vietnam issued Circular 180/2012/TT-BTC ("Circular 180") guiding financial treatment on severance allowance. According to the Circular 180, the accrual of severance allowance is no longer allowed and neither regarded as deductible expense since the effective date of Circular 180. Only the payment of severance allowance in line with Circular 180 shall be recorded as deductible overhead expense for Corporate Income Tax purpose. No deferred tax credit (2015: US\$25,000) was recognized in respect of the temporary differences between the accrued expenses and payment of the severance allowance for the year ended December 31, 2016.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

33. DEFERRED TAXATION (continued)

Apart from the accrual of severance allowance of which the deferred tax assets were recognized as presented above, the Group has also provided defined benefit plan for the employee in Indonesia. During the year ended December 31, 2016, deferred tax assets of US\$2,397,000 (2015: nil) and US\$1,754,000 (2015: nil) has been recognized in respect of the temporary differences between accrued expenses and future benefit payment and the actuarial losses arising from remeasurement of the defined benefits obligations respectively.

There was no other significant unprovided deferred taxation for the year or at the end of the reporting period.

34. SHARE CAPITAL

	No. of shares	Amount HK\$'000
Ordinary shares of HK\$0.25 each		
Authorized:		
At January 1, 2015, December 31, 2015 and December 31, 2016	2,000,000,000	500,000
Issued and fully paid:		
At January 1, 2015, December 31, 2015 and December 31, 2016	1,648,928,486	412,232
		US\$'000
Shown in the consolidated financial statements as at December 31, 2015 and 2016		53,211



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

35. INFORMATION ON THE FINANCIAL POSITION OF THE COMPANY

	2016 US\$'000	2015 US\$'000
Non-current assets		
Property, plant and equipment	1,034	269
Investments in subsidiaries	60,832	60,832
Available-for-sale investments	8,053	6,933
Held-to-maturity investments	10,119	–
	80,038	68,034
Current assets		
Amounts due from subsidiaries	1,454,899	1,860,188
Sundry receivables	4,265	3,006
Derivative financial instruments	2,390	261
Bank balances and cash	398,698	345,720
	1,860,252	2,209,175
Current liabilities		
Sundry payables	2,935	3,321
Derivative financial instruments	9,785	20,545
Amounts due to a substantial shareholder	3,478	2,950
Bank borrowings	–	350,000
	16,198	376,816
Net current assets	1,844,054	1,832,359
Total assets less current liabilities	1,924,092	1,900,393
Non-current liabilities		
Bank borrowings	620,000	370,000
Net assets	1,304,092	1,530,393
Capital and reserves		
Share capital	53,211	53,211
Reserves (Note 36)	1,250,881	1,477,182
	1,304,092	1,530,393



Notes to the Consolidated Financial Statements

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36. RESERVES OF THE COMPANY

	Share premium US\$'000	Contributed surplus US\$'000 (note a)	Other reserve US\$'000 (note b)	Investments revaluation reserve US\$'000	Shares held under share award scheme US\$'000	Share award reserve US\$'000	Retained profits US\$'000	Total US\$'000
At January 1, 2015	695,536	38,126	18,272	635	(8,814)	1,417	378,504	1,123,676
Profit for the year	-	-	-	-	-	-	610,952	610,952
Fair value loss on available-for-sale investments	-	-	-	(2,197)	-	-	-	(2,197)
Realized on expiry of call option	-	-	(18,272)	-	-	-	18,272	-
Purchase of shares under share award scheme	-	-	-	-	(2,140)	-	-	(2,140)
Recognition of equity-settled share-based payments, net of amounts forfeited relating to share awards not yet vested	-	-	-	-	-	1,764	-	1,764
Dividends (Note 11)	-	-	-	-	-	-	(254,873)	(254,873)
At December 31, 2015	695,536	38,126	-	(1,562)	(10,954)	3,181	752,855	1,477,182
Profit for the year	-	-	-	-	-	-	30,392	30,392
Fair value gain on available-for-sale investments	-	-	-	1,121	-	-	-	1,121
Purchase of shares under share award scheme	-	-	-	-	(3,878)	-	-	(3,878)
Recognition of equity-settled share-based payments, net of amounts forfeited relating to share awards not yet vested	-	-	-	-	-	739	-	739
Share awards vested	-	-	-	-	4,567	(3,444)	(1,123)	-
Dividends (Note 11)	-	-	-	-	-	-	(254,675)	(254,675)
At December 31, 2016	695,536	38,126	-	(441)	(10,265)	476	527,449	1,250,881

notes:

- (a) The contributed surplus of the Company represents the difference between the aggregate net tangible assets of the subsidiaries acquired by the Company under a corporate reorganization in 1992 and the nominal amount of the Company's shares issued for the acquisition.
- (b) Other reserve consists of USD Call Option 2015.

The premium received by the Company in 2010 for USD Call Option 2015 of approximately US\$18.3 million was recognized as equity and presented in reserves as "other reserve".

On March 31, 2015, the USD Call Option 2015 remained unexercised and lapsed. Accordingly, the premium received by the Company of approximately US\$18.3 million was derecognized and transferred to the retained profits in that year.



Notes to the Consolidated Financial Statements

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37. SHARE-BASED PAYMENT TRANSACTIONS

The Company and Pou Sheng operate share incentive schemes, particulars of which are set out below.

(a) Share option scheme of the Company

The Company's share option scheme (the "Yue Yuen Share Option Scheme") was adopted pursuant to a shareholders' resolution passed on February 27, 2009 for the primary purpose to attract and retain personnel, to provide incentives to eligible participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, and will expire on February 26, 2019. Under the Yue Yuen Share Option Scheme, the board of directors of the Company may at its discretion grant any eligible participant, including inter alia, directors and employees of the Company and its subsidiaries, share options, as it may determine appropriate.

Without prior approval from the Company's shareholders,

- (i) the total number of shares in respect of which options may be granted under the Yue Yuen Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue on the adoption date of the Yue Yuen Share Option Scheme. As at the date of this report, the total number of shares available for issue under the Yue Yuen Share Option Scheme is 164,892,848 shares representing 10% of the issued share capital of the Company; and
- (ii) the number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any twelve-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time. Options granted to substantial shareholders or independent non-executive directors, or any of their respective associates in the twelve-month period up to and including the date of grant, in excess of 0.1% of the shares of the Company in issue and with a value in excess of HK\$5 million (equivalent to approximately US\$0.6 million) must be approved in advance by the Company's shareholders.

The Board will specify the period within which the shares must be taken up under an option at the time of grant and such period shall not expire later than ten years from the date of grant.

The Board may, at its discretion, specify the minimum period for which an option must be held before it can be exercised at the time of grant.

A non-refundable consideration of HK\$10.00 shall be paid by each grantee on acceptance of the options within 14 days from the date of grant.

The exercise price is to be determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grants, (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

No option has been granted, exercised nor lapsed under the Yue Yuen Share Option Scheme since its adoption.



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37. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Share award scheme of the Company

A share award scheme (the "Yue Yuen Share Award Scheme") was adopted on January 28, 2014 and amended on March 23, 2016 by the Company to recognize the contributions by certain personnel of the Group and/or any company in which the Group may have an investment and any company which is a controlling shareholder of the Company including subsidiaries of such controlling shareholder (the "Associated Entity") and to attract suitable personnel for further development of the Group. Under the Yue Yuen Share Award Scheme, the board of directors of the Company may at its discretion grant any eligible participant awarded shares, provided that the total number of awarded shares shall not exceed 2% of the issued share capital of the Company as at the date of grant, as it may determine appropriate. The maximum number of shares which may be awarded to a selected participant under the scheme shall not exceed 1% of the issued share capital of the Company from time to time. Subject to early termination determined by the board of directors of the Company, the Yue Yuen Share Award Scheme is valid and effective for a period of ten years commencing on January 28, 2014, after which no further contribution to the trust fund of the Yue Yuen Share Award Scheme will be made by the Company.

The Yue Yuen Share Award Scheme is operated through a trustee which is independent of the Group. After the notification and instruction by the Company, the trustee has the right to, among other conditions, in its sole discretion, determine whether the shares are to be purchased on or off the Stock Exchange from time to time, unless during the period at which the directors of the Company are prohibited from dealing in shares by the Listing Rules or any corresponding codes or securities dealing restrictions adopted by the Company. The directors would notify the trustee of the Yue Yuen Share Award Scheme in writing upon the making of any award to any participants. Upon the receipt of such notice, the trustee would set aside the appropriate number of awarded shares in the pool of shares. The relevant awarded shares shall vest in accordance with the conditions and timetable as set out in the relevant letter of award issued to the selected participant. Vesting of the award shares will be conditional on the selected participant remaining as an employee of the Group and/or Associated Entity on a vesting date and the board has not determined to vary or cancel such an award for any reason (including but not limited to exceptionally poor performance, misconduct or material breach of the terms of employment or rules or policies of the Company). An award shall automatically lapse forthwith when a selected participant has taken unpaid leave of absence and does not return to work before the expiry of twenty four months from the original vesting date, or ceases to be an employee of the Group or an Associated Entity, or the company by which a selected participant is employed ceases to be a subsidiary of the Group or an Associated Entity, or an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company, or selected participant's employment is terminated for cause if the award has not been vested.

During the year ended December 31, 2016, 1,085,500 ordinary shares (2015: 650,000 ordinary shares) of the Company have been acquired at an aggregate cost of approximately HK\$30,076,000 (equivalent to approximately US\$3,878,000) (2015: HK\$16,588,000 (equivalent to approximately US\$2,140,000)). A total of 3,093,000 ordinary shares (2015: 3,380,000 ordinary shares) of the Company were held by the trustee of the Yue Yuen Share Award Scheme at December 31, 2016. The awarded shares shall be vested in the grantees provided that none of the performance evaluation rankings of the respective grantees during the vesting period is lower than specified level.



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37. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Share award scheme of the Company (continued)

Details of the awards, including the number of shares which were awarded according to the terms of the Yue Yuen Share Award Scheme during the two years ended December 31, 2016 and 2015 were as follows:

Date of grant	Vesting date	Number of awarded shares							Outstanding at December 31, 2016	
		Outstanding at January 1, 2015	Reclassified during the year	Lapsed/cancelled during the year	Outstanding at December 31, 2015	Granted during the year	Lapsed/cancelled during the year	Vested during the year		
Directors of the Company										
Lu Chin Chu	03.27.2014	03.27.2016	45,000	-	-	45,000	-	-	(45,000)	-
Lin Cheng-Tien (note ii)	03.27.2014	03.27.2016	-	45,000	-	45,000	-	-	(45,000)	-
Lee Shao Wu (note i)	03.27.2014	03.27.2016	45,000	-	-	45,000	-	-	(45,000)	-
	10.03.2016	10.02.2018	-	-	-	-	33,000	-	-	33,000
Tsai Ming-Lun, Ming	10.03.2016	10.02.2018	-	-	-	-	33,000	-	-	33,000
Hu Chia-Ho (note ii)	03.27.2014	03.27.2016	-	45,000	-	45,000	-	-	(45,000)	-
	10.03.2016	10.02.2018	-	-	-	-	33,000	-	-	33,000
Liu George Hong-Chih	03.27.2014	03.27.2016	45,000	-	-	45,000	-	-	(45,000)	-
	10.03.2016	10.02.2018	-	-	-	-	33,000	-	-	33,000
Sub-total			135,000	90,000	-	225,000	132,000	-	(225,000)	132,000
Employees of the Group and/or Associated Entities										
	03.27.2014	03.27.2016	1,327,500	(90,000)	(45,000)	1,192,500	-	(67,500)	(1,125,000)	-
	05.29.2014	05.29.2016	22,500	-	-	22,500	-	-	(22,500)	-
	03.29.2016	03.29.2018	-	-	-	-	34,000	-	-	34,000
	10.03.2016	10.02.2018	-	-	-	-	953,500	-	-	953,500
Sub-total			1,350,000	(90,000)	(45,000)	1,215,000	987,500	(67,500)	(1,147,500)	987,500
Total			1,485,000	-	(45,000)	1,440,000	1,119,500	(67,500)	(1,372,500)	1,119,500

notes:

- (i) Mr. Lee Shao Wu resigned as an executive director of the Company on February 6, 2017.
- (ii) Mr. Lin Cheng-Tien and Mr. Hu Chia-Ho were appointed as executive directors of the Company on March 20, 2015.



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37. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Share award scheme of the Company (continued)

The fair values of the share awards as at the respective date of grant, determined by Greater China Appraisal Limited using the Black-Scholes Option Pricing Model, were totally amounted to HK\$729,000 and HK\$27,908,000 (equivalent to approximately US\$94,000 and US\$3,598,000) respectively. The key inputs into the Black-Scholes Option Pricing Model at the respective date of grant are as follows:

	March 29,	October 3,
Date of grant	2016	2016
Closing share price at the date of grant	HK\$26.45	HK\$31.75
Annual risk free rate	0.64%	0.46%
Expected volatility	28.47%	28.57%
Vesting period	2 years	2 years
Expected dividend yield	4.43%	4.20%

The variables and assumptions used in computing the fair value of the share awards are based on the directors' best estimate. The value of an award varies with different variables of certain subjective assumptions.

The closing prices of the Company's shares immediately before the grant of the awards on March 29, 2016 and October 3, 2016 were HK\$27.10 and HK\$32.00 respectively.

During the year ended December 31, 2016, the Group recognized a net expense of US\$739,000 (2015: US\$1,764,000) as equity-settled share-based payments in relation to the Yue Yuen Share Award Scheme.



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For the year ended December 31, 2016

37. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(c) Share option scheme of Pou Sheng

Pou Sheng's share option scheme (the "Pou Sheng Share Option Scheme") was adopted pursuant to a resolution passed by Pou Sheng's shareholders on May 14, 2008 and amended on March 7, 2012 for the primary purpose to attract and retain personnel, to provide incentives to eligible participants to work towards enhancing the value of Pou Sheng and its shares for the benefit of Pou Sheng and its shareholders as a whole, and will expire on May 13, 2018. Under the Pou Sheng Share Option Scheme, the board of directors of Pou Sheng may grant options to eligible persons, including directors and employees of Pou Sheng and its subsidiaries, to subscribe for shares in Pou Sheng.

Without prior approval from Pou Sheng's shareholders,

- (i) the total number of shares in respect of which options may be granted under the Pou Sheng Share Option Scheme is not permitted to exceed 10% of the shares of Pou Sheng in issue at date of listing;
- (ii) the number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any twelve-month period is not permitted to exceed 1% of the shares of Pou Sheng in issue at any point in time; and
- (iii) options in excess of 0.1% of the shares of Pou Sheng in issue and with a value in excess of HK\$5 million may not be granted to substantial shareholders or independent non-executive directors or any of their respective associates, in the twelve-month period up to and including the date of such grant.

Options are exercisable over the vesting periods to be determined by the board of directors of Pou Sheng, but in no case after the tenth anniversary of the date of grant. The exercise price is determined by the board of directors of Pou Sheng, and will not be less than the highest of (i) the closing price of Pou Sheng's shares on the date of grant; (ii) the average closing price of Pou Sheng's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of Pou Sheng's share.



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37. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(c) Share option scheme of Pou Sheng (continued)

The following tables disclose movements in the share options under the Pou Sheng Share Option Scheme during the two years ended December 31, 2016 and 2015:

	Date of grant	Exercise price HK\$	Exercisable period	Number of share options							
				Outstanding at January 1, 2015	Reclassification during the year	Lapsed/ cancelled during the year	Outstanding at December 31, 2015	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year (note ii)	Outstanding at December 31, 2016
Director of the Company											
Hu Chia-Ho (note i)	01.21.2010	1.620	01.21.2011 – 01.20.2018	-	120,000	-	120,000	-	-	-	120,000
	01.21.2010	1.620	01.21.2012 – 01.20.2018	-	120,000	-	120,000	-	-	-	120,000
	01.21.2010	1.620	01.21.2013 – 01.20.2018	-	240,000	-	240,000	-	-	-	240,000
	01.21.2010	1.620	01.21.2014 – 01.20.2018	-	320,000	-	320,000	-	-	-	320,000
Sub-total				-	800,000	-	800,000	-	-	-	800,000
Current and former Employees/consultants of Pou Sheng											
Current and former Employees/consultants of Pou Sheng	01.21.2010	1.620	01.21.2011 – 01.20.2018	4,500,450	(120,000)	(60,000)	4,320,450	-	(1,079,000)	177,000	3,418,450
	01.21.2010	1.620	01.21.2012 – 01.20.2018	4,500,450	(120,000)	(60,000)	4,320,450	-	(1,045,000)	177,000	3,452,450
	01.21.2010	1.620	01.21.2013 – 01.20.2018	6,789,900	(240,000)	(105,000)	6,444,900	-	(874,000)	354,000	5,924,900
	01.21.2010	1.620	01.21.2014 – 01.20.2018	7,321,200	(320,000)	-	7,001,200	-	(942,000)	(808,000)	5,251,200
	01.20.2011	1.230	01.20.2012 – 01.19.2019	11,737,500	-	(150,000)	11,587,500	-	(2,075,000)	-	9,512,500
	01.20.2011	1.230	01.20.2013 – 01.19.2019	7,987,500	-	(25,000)	7,962,500	-	(1,750,000)	-	6,212,500
	01.20.2011	1.230	01.20.2014 – 01.19.2019	5,500,000	-	-	5,500,000	-	(1,236,000)	-	4,264,000
	01.20.2011	1.230	01.20.2015 – 01.19.2019	4,800,000	-	-	4,800,000	-	(1,125,000)	-	3,675,000
	03.07.2012	1.050	03.07.2013 – 03.06.2020	750,000	-	-	750,000	-	(375,000)	-	375,000
	03.07.2012	1.050	03.07.2014 – 03.06.2020	375,000	-	-	375,000	-	(375,000)	-	-
	03.07.2012	1.050	03.07.2015 – 03.06.2020	375,000	-	-	375,000	-	(375,000)	-	-
	03.07.2012	1.050	03.07.2016 – 03.06.2020	375,000	-	-	375,000	-	(375,000)	-	-
	11.14.2016	2.494	09.01.2017 – 09.01.2021	-	-	-	-	1,166,320	-	-	1,166,320
	11.14.2016	2.494	09.01.2018 – 09.01.2020	-	-	-	-	1,166,320	-	-	1,166,320
	11.14.2016	2.494	09.01.2019 – 09.01.2021	-	-	-	-	1,166,320	-	-	1,166,320
	11.14.2016	2.494	09.01.2020 – 09.01.2022	-	-	-	-	2,332,640	-	-	2,332,640
11.14.2016	2.494	09.01.2021 – 09.01.2023	-	-	-	-	5,831,590	-	-	5,831,590	
Sub-total				55,012,000	(800,000)	(400,000)	53,812,000	11,663,190	(11,626,000)	(100,000)	53,749,190
Total				55,012,000	-	(400,000)	54,612,000	11,663,190	(11,626,000)	(100,000)	54,549,190
Exercisable as at January 1, 2015, December 31, 2015 and December 31, 2016				49,462,000			54,237,000				42,886,000

notes:

- (i) Mr. Hu Chia-Ho was appointed as executive director of the Company on March 20, 2015.
- (ii) Included the reverse of a total of 1,180,000 Pou Sheng's share options (which were previously mistakenly treated as lapsed) during the year.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

37. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(c) Share option scheme of Pou Sheng (continued)

The fair value of the share options granted on November 14, 2016, as at the date of grant, determined by APAC Asset Valuation using the Binomial Option Pricing Model, was HK\$11,138,000 (equivalent to approximately US\$1,436,000). The key inputs into the Binomial Option Pricing Model are as follows:

Exercise price	HK\$2.494
Closing share price at the date of grant	HK\$2.41
Annual risk free rate	0.99 – 1.18%
Expected volatility	50 – 55%
Expected life of share options	2.8 – 6.8 years
Expected dividend yield	2.00%

The variables and assumptions used in computing the fair value of the share options are based on directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The closing price of Pou Sheng's shares immediately before the grant of the share options on November 14, 2016 was HK\$2.55 per share.

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK\$2.31 (2015: HK\$1.71).

During the year ended December 31, 2016, the Group recognized a net expense of US\$71,000 (2015: US\$16,000) as equity-settled share-based payments in the consolidated income statement under the Pou Sheng Share Option Scheme with reference to the share options' respective vesting periods and the share options lapsed prior to their vesting dates after recognizing share option expenses.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

37. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(d) Share award scheme of Pou Sheng

Pou Sheng's share award scheme (the "Pou Sheng Share Award Scheme") was adopted pursuant to a board resolution passed by Pou Sheng's directors on May 9, 2014 and amended on November 11, 2016. The objective of the Pou Sheng Share Award Scheme is to recognize the contributions by certain persons, including directors of Pou Sheng and employees of the Pou Sheng Group (the "Selected Participants") and to provide incentives to retain them for the continual operation and development of the Pou Sheng Group, and to attract suitable personnel for further development of the Pou Sheng Group. The Pou Sheng Share Award Scheme became effective on May 9, 2014 and, unless otherwise terminated or amended, will remain in force for 10 years.

The Pou Sheng Share Award Scheme is operated through a trustee which is independent of the Pou Sheng Group. After the notification and instruction by Pou Sheng, the trustee has the right to, among other conditions, in its sole discretion, determine whether the shares are to be purchased on or off the Stock Exchange from time to time, unless during the year at which the directors of Pou Sheng are prohibited by the Listing Rules or any corresponding codes or securities dealing restrictions adopted by Pou Sheng.

The directors of Pou Sheng would notify the trustee of the Pou Sheng Share Award Scheme in writing upon the making of any award to any participants. Upon the receipt of such notice, the trustee would set aside the appropriate number of awarded shares in the pool of shares. The relevant awarded shares shall vest in accordance with the conditions and timetable as set out in the relevant letter of award issued to the Selected Participant. Vesting of the award shares will be conditional on the Selected Participants remaining an employee of the Pou Sheng Group on a vesting date and the board of Pou Sheng has not determined to vary or cancel such an award for any reason (including but not limited to exceptionally poor performance, misconduct or material breach of the terms of employment or rules or policies of Pou Sheng). An award shall automatically lapse forthwith when a Selected Participant has taken unpaid leave of absence and does not return to work before the expiry of twenty four months from the original vesting date, or ceases to be an employee of the Pou Sheng Group, or the subsidiary employing the Selected Participant ceases to be a subsidiary, or an order for the winding-up of Pou Sheng is made or a resolution is passed for the voluntary winding-up of Pou Sheng, or Selected Participant's employment is terminated for cause if the award has not been vested.

During the year ended December 31, 2016, 30,000,000 ordinary shares (2015: 80,000,000 ordinary shares) of Pou Sheng have been acquired at an aggregate cost of HK\$69,868,000 (equivalent to approximately US\$9,034,000) (2015: HK\$84,206,000 (equivalent to approximately US\$10,863,000)). A total of 130,000,000 ordinary shares (2015: 100,000,000 ordinary shares) of Pou Sheng were held by the trustee of the Pou Sheng Share Award Scheme at December 31, 2016.



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For the year ended December 31, 2016

37. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(d) Share award scheme of Pou Sheng (continued)

The following table discloses movements in Pou Sheng's share awards under the Pou Sheng Share Award Scheme during the two years ended December 31, 2016 and 2015:

	Date of grant	Vesting date	Number of awarded shares						
			Outstanding at January 1, 2015	Granted during the year	Lapsed/ cancelled during the year	Outstanding at December 31, 2015	Granted during the year	Lapsed/ cancelled during the year	Outstanding at December 31, 2016
Director of Pou Sheng									
Kwan, Heh-Der (note)	09.01.2014	09.01.2017	1,200,000	-	-	1,200,000	-	-	1,200,000
	05.13.2016	08.31.2018	-	-	-	-	1,400,000	-	1,400,000
Sub-total			1,200,000	-	-	1,200,000	1,400,000	-	2,600,000
Employees of Pou Sheng									
	09.01.2014	09.01.2017	10,300,000	-	(2,000,000)	8,300,000	-	(1,200,000)	7,100,000
	03.21.2015	03.21.2018	-	8,900,000	(352,000)	8,548,000	-	(765,000)	7,783,000
	08.14.2015	08.14.2018	-	10,270,000	(580,000)	9,690,000	-	(1,360,000)	8,330,000
	03.24.2016	03.24.2019	-	-	-	-	5,130,000	(210,000)	4,920,000
	08.13.2016	08.13.2019	-	-	-	-	5,460,000	-	5,460,000
	11.12.2016	08.31.2019	-	-	-	-	600,000	-	600,000
	11.14.2016	09.01.2017	-	-	-	-	833,680	-	833,680
	11.14.2016	09.01.2018	-	-	-	-	833,680	-	833,680
	11.14.2016	09.01.2019	-	-	-	-	833,680	-	833,680
	11.14.2016	09.01.2020	-	-	-	-	1,667,360	-	1,667,360
	11.14.2016	09.01.2021	-	-	-	-	4,168,410	-	4,168,410
Sub-total			10,300,000	19,170,000	(2,932,000)	26,538,000	19,526,810	(3,535,000)	42,529,810
Total			11,500,000	19,170,000	(2,932,000)	27,738,000	20,926,810	(3,535,000)	45,129,810

note: Mr. Kwan, Heh-Der resigned as a director of Pou Sheng on January 6, 2017.



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For the year ended December 31, 2016

37. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(d) Share award scheme of Pou Sheng (continued)

The fair values of the share awards as at the date of grant, determined by APAC Asset Valuation using the Black-Scholes Option Pricing Model, amounted to HK\$29,269,000 (equivalent to approximately US\$3,770,000) (2015: HK\$11,098,000 (equivalent to approximately US\$1,432,000)). The key inputs into the Black-Scholes Option Pricing Model are as follows:

Date of grant	November 14, 2016	November 12, 2016	August 13, 2016	May 13, 2016	March 24, 2016	August 14, 2015	March 21, 2015
Closing share price of Pou Sheng at the date of grant	HK\$2.41	HK\$2.55	HK\$2.40	HK\$2.07	HK\$1.61	HK\$1.14	HK\$0.55
Annual risk free rate	0.50 – 1.07%	0.84%	0.48%	0.600%	0.845%	0.784%	0.731%
Expected volatility	51 – 57%	55%	55%	57%	54%	52%	50%
Vesting period	0.8 – 4.8 years	2.8 years	3 years	2.3 years	3 years	3 years	3 years
Expected dividend yield	2.0%	2.0%	2.0%	Nil	Nil	Nil	Nil

The variables and assumptions used in computing the fair value of the share awards are based on the directors' best estimate. The value of an award varies with different variables of certain subjective assumptions.

The closing prices of Pou Sheng's shares immediately before the grant of the share awards on March 24, 2016, May 13, 2016, August 13, 2016, November 12, 2016 and November 14, 2016 were HK\$1.67, HK\$2.00, HK\$2.40, HK\$2.55 and HK\$2.55 (March 21, 2015: HK\$0.55 and August 14, 2015: HK\$1.12) per share respectively.

During the year ended December 31, 2016, the Group recognized a net expense of US\$1,023,000 (2015: US\$397,000) as equity-settled share-based payments in the consolidated income statement under the Pou Sheng Share Award Scheme with reference to the share awards' respective vesting periods and the share awards lapsed prior to their vesting dates after recognizing shares award expenses.



Notes to the Consolidated Financial Statements

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38. 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 maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank borrowings and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits as disclosed in the consolidated statement of changes in equity.

The directors of the Company review the capital structure on a quarterly 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 repurchases as well as the issue of new debt or the redemption of existing debt.

39. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2016 US\$'000	2015 US\$'000
Financial assets		
Derivative financial instruments	2,531	261
Loans and receivables (including cash and cash equivalents)	2,279,855	2,159,980
Available-for-sale investments	36,541	28,017
Investments held for trading	17,053	8,930
Held-to-maturity investments	10,119	–
Pledged bank deposits	–	912
Financial liabilities		
Derivative financial instruments	9,785	20,545
Amortized cost	1,649,326	1,585,550
Consideration payable for acquisition of business	8,689	11,299

(b) Financial risk management objectives and policies

The Group's financial instruments include amounts due from joint ventures, available-for-sale investments, held-to-maturity investments, derivative financial instruments, investments held for trading, trade and other receivables, bank balances and cash, pledged bank deposits, bank overdrafts, trade and other payables, bank borrowings and consideration payable for acquisition of business. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other 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. There has been no change to the policies on how to mitigate these risks.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

39. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk

(i) Currency risk

Majority of the Group's revenue are denominated in USD. However, the Group has certain trade and other receivables, trade and other payables, pledged bank deposits, bank balances and debt obligations that are denominated in foreign currency. As a result, the Group is exposed to fluctuations in foreign exchange rates. In order to mitigate the currency risk, the Group has entered into forward and other foreign currency contracts to partially hedge USD against RMB and IDR. Details of the contracts are set out in Note 25. The Group regularly reviews the effectiveness of these instruments and the underlying strategies in monitoring currency risk.

The carrying amounts of the Group's monetary assets and liabilities that are denominated in currencies other than the functional currency of the relevant group entities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
USD	13,755	10,345	21,576	20,069
RMB	255,782	253,144	98,559	155,836
New Taiwan dollars ("NTD")	36,601	27,584	29,317	32,657
Vietnamese Dong ("VND")	8,866	18,841	55,754	55,512
IDR	17,821	16,418	65,582	64,597
Hong Kong dollars ("HKD")	16,036	15,162	5,811	11,460

Sensitivity analysis

The Group's foreign currency risk is mainly concentrated on the fluctuation of USD, RMB, NTD, VND, IDR and HKD. Since HKD is pegged to USD, the Group does not expect any significant movements in USD/HKD exchange rate.

The management of the Group expects the movement in functional currency of the relevant group entities against the relevant foreign currencies is 5%. These percentages are therefore the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in currencies exchange rates.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

39. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

Sensitivity analysis (continued)

The following table details the Group's sensitivity to a 5% (2015: 5%) decrease in the functional currency of the relevant group entities against the relevant foreign currencies. The following sensitivity analysis includes only outstanding monetary items denominated in foreign currencies and adjusts their translation at the year end for a 5% change in foreign currency exchange rates. A positive (negative) number below indicates an increase (decrease) in profit before taxation when the currency below strengthen 5% against the functional currency of the relevant group entities. For a 5% (2015: 5%) weakening of these currencies against the functional currency of the relevant group entities, there would be an equal and opposite impact on the profit before taxation.

	notes	2016 US\$'000	2015 US\$'000
(Loss) gain in relation to:			
– USD	(i)	(391)	(486)
– RMB	(ii)	7,861	4,865
– NTD	(iii)	364	(254)
– VND	(iii)	(2,344)	(1,834)
– IDR	(iii)	(2,388)	(2,409)

notes:

- (i) This is mainly attributable to the exposure on bank and loan balances.
- (ii) This is mainly attributable to the exposure on bank balances, receivables, payables and derivative financial instruments.
- (iii) This is mainly attributable to the exposure on bank and loan balances, receivables and payables denominated in NTD, VND and IDR.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

39. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) *Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to amount due from an associate (Note 28(ii)), amounts due from joint ventures (Notes 21 and 28(ii)), bank balances (Note 26(b)), bank overdrafts (Note 26(c)) and bank borrowings (Notes 31 and 32) due to the fluctuation of the prevailing market interest rate. In relation to the floating rate borrowings, the Group aims at keeping certain borrowings at fixed rates. In order to achieve this result, the Group entered into interest rate swaps to hedge against part of its exposure to potential variability of cash flow arising from changes in floating rate. The directors consider the Group's exposure of the bank balances to interest rate risk is not significant as interest bearing bank balances are within short maturity period. The management will continuously monitor interest rate fluctuation and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to loan receivable (Note 28(ii)), pledged bank deposits (Note 26(a)) and amounts due to connected parties (Note 47(I)).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of LIBOR, HIBOR and rates quoted by PBOC.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For amount due from an associate, amounts due from joint ventures, variable-rate bank borrowings and bank overdrafts, the analysis is prepared assuming the carrying amount of assets and liabilities which carried floating interest rates and outstanding at the end of the reporting period were outstanding for the whole year and the stipulated change taking place at the beginning of the financial year and held constant throughout the financial year. A 100 basis points (2015: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates on interest-bearing amounts due from joint ventures, bank overdrafts and bank borrowings had been 100 basis points (2015: 100 basis points) higher and all other variables were held constant, the Group's profit before taxation for the year would decrease by US\$9,576,000 (2015: decrease by US\$8,101,000). If interest rates were lower by 100 basis points (2015: 100 basis points), there would be an equal and opposite impact on the profit before taxation for the year.

This is mainly attributable to the Group's exposure to its variable-rate borrowings.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

39. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(iii) Other price risk

The Group's available-for-sale investments and foreign currency derivatives at the end of the reporting period exposed the Group to other price risk. The Group's other price risk is mainly concentrated on equity instruments which operate in footwear industry. Details of those are set out in Notes 23(a) and 25.

Sensitivity analysis

(a) Available-for-sale investments

The Group is exposed to equity price risk through its available-for-sale equity investments. If the market price of the listed investment had increased/decreased by 10% (2015: 10%), the Group's reserve would increase/decrease by US\$3,623,000 (2015: US\$2,802,000) at December 31, 2016.

(b) Foreign currency derivatives

For the outstanding foreign currency derivatives contracts, if the market forward exchange rate of USD had strengthened/weakened against IDR by 5% (2015: RMB by 5%), profit before taxation for the year ended December 31, 2016 would decrease/increase by US\$403,000 (2015: decrease/increase by US\$1,014,000) as a result of the changes in the market foreign currency forward exchange rate of USD against IDR (2015: RMB).

In management's opinion, the sensitivity analyses are not necessarily representative of the inherent market risk as the pricing model used in determining the fair value of the derivatives and financial liabilities are interdependent.

Credit risk

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 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position and the guarantee given as set out in Note 45.

The Group has concentration of credit risk on certain individual customers. At the end of the reporting period, the five largest trade receivable balances accounted for approximately 57% (2015: 57%) of the trade receivables and the largest trade receivable balance was approximately 24% (2015: 22%) of the Group's total trade receivables. For both years, the five largest customers, which are internationally well known companies engaging in sports footwear and sportswear business with good financial position by reference to their respective published financial statements, have good repayment history and credit quality with reference to the track records of these customers under internal assessment by the Group. The Group seeks to minimize its risk by dealing with counterparties which have good credit history.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

39. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk (continued)

In order to minimize the credit risk, the 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 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.

In addition to the credit risk on trade debts, the Group is also exposed to credit risk through its advances to, and guarantees granted to banks in respect of banking facilities utilized by its associates and joint ventures. The advances are secured by the equity interests held by the other joint venture partners in these entities as collateral for the advances. In addition, because of the Group's involvement in the management of these entities, the Group is in a position to monitor their financial performance and can take timely actions to safeguard its assets and/or to minimize its losses. Accordingly, management believes that the Group's exposure in this regard is significantly reduced.

The Group does not have a concentration of credit risk on the advances to, and guarantees granted to banks in respect of banking facilities utilized by, its associates and joint ventures as these spread across a number of entities.

The Group's concentration of credit risk by geographical locations of customers are mainly in the US, Europe and Asia which accounted for 29%, 23% and 39% (2015: 27%, 24% and 40%), respectively, of the trade receivables at December 31, 2016.

The credit risk on liquid funds is limited because the counterparties are banks with high reputation.

Liquidity risk

The Group has net current assets of US\$2,263,057,000 (2015: US\$1,744,763,000) as at December 31, 2016. The Group has sufficient funds to finance its current working capital requirements taking into account of the existing banking facilities and cashflows from operations.

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 utilization of bank borrowings and ensures compliance with loan covenants.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

39. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. For non-derivative financial liabilities, 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. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative instruments that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management considers that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

Liquidity and interest risk tables

	Weighted average effective interest rate %	On demand or less than 1 month US\$'000	1 – 3 months US\$'000	3 months to 1 year US\$'000	1 – 5 years US\$'000	Total undiscounted cash flows US\$'000	Carrying amount at 12.31.2016 US\$'000
As at December 31, 2016							
Non-derivative financial liabilities							
Trade and other payables	-	600,524	74,065	14,667	-	689,256	689,256
Bank borrowings – variable rate	2.05	233,995	7,906	12,932	753,425	1,008,258	960,070
Consideration payable for acquisition of business	-	8,689	-	-	-	8,689	8,689
Financial guarantee contracts	-	106,146	-	-	-	106,146	-
		949,354	81,971	27,599	753,425	1,812,349	1,658,015
Derivatives – net settlement							
Currency structured forward contracts	-	9,785	-	-	-	9,785	9,785



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

39. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity and interest risk tables (continued)

	Weighted average effective interest rate %	On demand or less than 1 month US\$'000	1 – 3 months US\$'000	3 months to 1 year US\$'000	1 – 5 years US\$'000	Total undiscounted cash flows US\$'000	Carrying amount at 12.31.2015 US\$'000
As at December 31, 2015							
Non-derivative financial liabilities							
Trade and other payables	-	672,924	81,125	13,095	-	767,144	767,144
Bank borrowings							
– variable rate	1.42	35,108	111,396	293,983	384,102	824,589	803,164
Bank overdrafts	5.12	15,242	-	-	-	15,242	15,242
Consideration payable for acquisition of business	-	11,299	-	-	-	11,299	11,299
Financial guarantee contracts	-	116,001	-	-	-	116,001	-
		850,574	192,521	307,078	384,102	1,734,275	1,596,849
Derivatives – net settlement							
Currency structured forward contracts	-	20,545	-	-	-	20,545	20,545

The amounts included above for financial guarantee contracts are the maximum amounts the Group can be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

39. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of the 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), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (levels 1 to 3 as set out in Note 3) based on the degree to which the inputs to the fair value measurements is observable.

	2016 US\$'000	2015 US\$'000	Fair value hierarchy
Financial assets at FVTPL			
Derivative financial instruments			
Foreign currency derivatives (note i)	1,716	261	Level 2
Interest rate swap (note ii)	815	–	Level 2
Investments held for trading (note iii)	17,053	8,930	Level 1
Available-for-sale investments			
Listed equity securities (note iv)	36,231	28,017	Level 1
Total	55,815	37,208	
Financial liabilities at FVTPL			
Derivative financial instruments			
Foreign currency derivatives (note i)	9,785	20,545	Level 2
Consideration payable for acquisition of business (note v)	–	11,299	Level 3
Total	9,785	31,844	

notes:

- (i) Foreign currency derivatives mainly represent foreign currency forward contracts and currency structured forward contracts. These financial assets and liabilities are measured at fair value with reference to 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.
- (ii) The interest rate swap is measured at fair value with reference to discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and yield curve of relevant interest rates and contracted interest rates, discounted at a rate that reflects the credit risk of the counterparties.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

39. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments (continued)

notes: (continued)

- (iii) The fair values of investments held for trading are determined with reference to prices provided by the respective issuing financial institutions.
- (iv) Listed equity securities are traded on active markets and their fair values are determined with reference to quoted market bid prices in active market.
- (v) For the years ended December 31, 2015 and 2016, consideration payable for acquisition of business represented the amount that the Group might have to compensate the vendor for the shortfall, if any, of the market value of the ordinary shares of Pou Sheng issued for the acquisition of a business in prior years below HK\$4 each at the maturity of a pre-determined restricted period from November 21, 2016 to December 19, 2016, until which the shares issued by Pou Sheng were placed in an escrow account and Pou Sheng's consent was required for any withdrawal.

During the year ended December 31, 2016, the consideration payable for acquisition of business measured at fair value was derecognized upon maturity. Accordingly, the consideration payable for acquisition of business was accounted for as an extinguishment of the original financial liability that is measured at fair value at maturity; and a new financial liability at amortized cost was immediately recognized in the consolidated statement of financial position as at December 31, 2016, which was repaid and settled on January 20, 2017.

As at December 31, 2015, the valuation technique adopted was Binomial Option Pricing Model whereas the key inputs to the valuation models included the share price of Pou Sheng's share at date of valuation, risk free rate, expected volatility, expected life of the guaranteed compensation and the expected dividend yield. The significant unobservable inputs in the valuation model included the expected volatility with reference to the historical price volatility and the expected dividend yield of Pou Sheng. Both inputs were positively related to the fair value of the consideration payable for acquisition of business. If any of the unobservable inputs above were 5% higher/lower while all the other variables were held constant, the changes in fair value of the consideration payable for acquisition of business would not be significant.

The fair value of the guaranteed compensation as at December 31, 2015 was determined by APAC Asset Valuation, using the Binomial Option Pricing Model.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

39. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments (continued)

notes: (continued)

(v) (continued)

The key inputs into the model are set out below:

	2015
Share price of Pou Sheng's share at date of valuation	HK\$1.86
Exercise price per share	HK\$4.00
Risk free rate	0.14%
Expected volatility	63%
Expected life of the guaranteed compensation	0.89 years
Expected dividend yield	Nil

Reconciliation of Level 3 fair value measurements of financial liabilities is as follows:

	Consideration payable for acquisition of business
	US\$'000
At January 1, 2015	16,436
Unrealized gain, recognized in profit or loss (included in fair value changes on consideration payable for acquisition of business)	(5,149)
Exchange realignment	12
At December 31, 2015	11,299
Unrealized gain, recognized in profit or loss (included in fair value changes on consideration payable for acquisition of business)	(2,591)
Transfer out of Level 3	(8,689)
Exchange realignment	(19)
At December 31, 2016	-



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

40. ACQUISITION OF BUSINESS

For the year ended December 31, 2015

On May 28, 2015, the Group acquired a business, which principally engaged in sports marketing and sports agency in Taiwan, from two independent third parties at a consideration of US\$2,593,000.

The Group obtained control over the business on the date of completion of the acquisition, which has been accounted for using the purchase method. The amount of goodwill arising as a result of this acquisition was US\$1,546,000.

Further details of the acquisition, including consideration paid, assets acquired and liabilities recognized are set out below.

	US\$'000
Consideration for the acquisition:	
Cash consideration	2,593
Fair value of assets acquired and liabilities recognized at the date of acquisition are as follows:	
Property, plant and equipment (Note 14)	470
Inventories	496
Trade and other receivables	1,640
Bank balances and cash	533
Trade and other payables	(1,849)
Bank borrowings	(243)
	1,047
Goodwill (Note 17)	1,546
Cash flows arising on acquisition:	
Cash consideration paid for acquisition	(2,593)
Less: bank balances and cash acquired	533
Net cash outflows	(2,060)

The business acquired during the year ended December 31, 2015 did not contribute significantly to the results and cash flows of the Group during that year.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

41. DISPOSAL OF SUBSIDIARIES

For the year ended December 31, 2016

- (a) During the year ended December 31, 2016, the Group entered into an investment agreement with an independent third party (the "Investor") to set up a new company, Tien Pou International Limited ("Tien Pou"), where the Group and the Investor each transfer certain of their own subsidiaries to Tien Pou. Under the investment agreement, the Group would (a) own 40% interest of Tien Pou; and (b) transfer to Tien Pou, 100% equity interests of Great Spring Management Limited and its subsidiaries (the "Great Spring Group"), which is principally engaged in manufacturing of sports apparel.

The aggregate amounts of assets and liabilities attributable to the Great Spring Group on the date of disposal are as follows:

	US\$'000
Net assets disposed of:	
Property, plant and equipment	2,375
Inventories	3,472
Trade and other receivables	8,203
Bank balances and cash	4,369
Trade and other payables	(9,970)
Total net assets	8,449
Loss on disposal of subsidiaries:	
Fair value of the 40% interest in Tien Pou and its subsidiaries	8,140
Net assets disposed of	(8,449)
Loss on disposal (Note 7)	(309)
Net cash outflow arising on disposal, represented by bank balances and cash disposed of	4,369

The subsidiaries disposed of during the year ended December 31, 2016 did not contribute significantly to the results and cash flows of the Group during the year prior to the disposal.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

41. DISPOSAL OF SUBSIDIARIES (continued)

For the year ended December 31, 2016 (continued)

- (b) During the year ended December 31, 2016, the Group completed the disposal of 100% equity interest in Yi Sheng Leather Co., Ltd. and its subsidiaries (the "Yi Sheng Group") at an aggregate consideration of US\$3,300,000. The Yi Sheng group is principally engaged in trading of leather.

The aggregate amounts of assets and liabilities attributable to the Yi Sheng Group on the date of disposal are as follows:

	US\$'000
Net assets disposed of:	
Property, plant and equipment	2,861
Prepaid lease payments	856
Trade and other receivables	161
Trade and other payables	(870)
Taxation payable	(129)
Total net assets	2,879
Gain on disposal of subsidiaries:	
Consideration received and receivable	3,300
Net assets disposed of	(2,879)
Gain on disposal (Note 7)	421
Net cash inflow arising on disposal:	
Cash consideration	3,300
Less: consideration receivable (included in trade and other receivables)	(100)
	3,200



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

41. DISPOSAL OF SUBSIDIARIES (continued)

For the year ended December 31, 2015

During the year ended December 31, 2015, the Group completed the disposal of 51% equity interests in Valuable Developments Limited and its subsidiaries (the "Valuable Developments Group") at an aggregate consideration of US\$4,742,000. The Valuable Developments Group is principally engaged in manufacturing of foamed cotton.

The aggregate amounts of assets and liabilities attributable to the Valuable Developments Group on the date of disposal were as follows:

	US\$'000
Net assets disposed of:	
Property, plant and equipment	3,477
Prepaid lease payments	711
Goodwill (Note 17)	23
Inventories	3,390
Trade and other receivables	8,365
Bank balances and cash	1,890
Trade and other payables	(7,295)
Bank borrowings	(302)
Total net assets	10,259
Less: Non-controlling interests	(5,701)
	4,558
Gain on disposal of subsidiaries:	
Consideration received	4,742
Net assets disposed of	(4,558)
Gain on disposal (Note 7)	184
Net cash inflow arising on disposal:	
Cash consideration received	4,742
Less: bank balances and cash disposed of	(1,890)
	2,852

The subsidiaries disposed of during the year ended December 31, 2015 did not contribute significantly to the results and cash flows of the Group during the year prior to the disposal.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

42. OPERATING LEASES

The Group as lessee

The Group made the following lease payments during the year:

	2016 US\$'000	2015 US\$'000
Operating leases rentals in respect of:		
Minimum leases payments:		
– leasehold land and buildings	35,117	33,424
– retail shops	76,754	65,045
– plant and machinery	113	247
	111,984	98,716
Contingent rentals:		
– retail shops	234,239	218,355
	346,223	317,071

At the end of the reporting period, the Group had commitments for non-cancellable future minimum lease payments in respect of leasehold land and buildings and retail shops under non-cancellable operating leases, which fall due as follows:

	2016 US\$'000	2015 US\$'000
Within one year	85,042	64,441
In the second to fifth year inclusive	117,672	111,211
After five years	52,642	39,278
	255,356	214,930

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' revenue using pre-determined formulae. It is not possible to estimate in advance the amount of such contingent rents payable.

Included in the above are commitments under non-cancellable operating leases of approximately US\$5.2 million as at December 31, 2016 which expire in 2017 (2015: US\$10.4 million which expire in 2017), payable to related companies, Godalming Industries Limited ("Godalming") and its subsidiaries, details of which are set out in Note 47(e).



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

42. OPERATING LEASES (continued)

The Group as lessor

All of the Group's investment properties held have committed tenants for the next one to ten years and rentals are fixed.

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	11,937	9,612
In the second to fifth year inclusive	16,884	16,495
After five years	21,139	23,823
	49,960	49,930

In addition to the basic rental receipts as disclosed above, the lease agreements with certain tenants also include provisions for the payment of contingent rents to the Group. In general, these contingent rents are calculated with reference to the revenue generated by the tenants operating in the Group's retailing complex using pre-determined formulae. It is not possible to estimate in advance the amount of such contingent rents receivable. Rental income received by the Group during the year ended December 31, 2016 was US\$18,386,000 (2015: US\$20,802,000), of which contingent rental income arising from contingent terms of lease contracts amounted to US\$10,269,000 (2015: US\$11,870,000).

43. COMMITMENTS

	2016 US\$'000	2015 US\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– construction of buildings	16,705	14,210
– acquisition of property, plant and equipment	13,133	8,258
– acquisition of land leases	–	2,338
	29,838	24,806

Save as disclosed above, the Group had no other material capital commitments at December 31, 2016 and 2015.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

44. MAJOR NON-CASH TRANSACTIONS

During the year ended December 31, 2016, the major non-cash transactions are as follow:

- (i) The increase in interests in associates of US\$1,002,000 was settled by offsetting dividend receivables from associates.
- (ii) The increase in interests in joint ventures of US\$28,643,000 was settled by offsetting amounts due from joint ventures and dividend receivables from joint ventures.

During the year ended December 31, 2015, the major non-cash transactions were as follow:

- (i) The increase in interests in joint ventures of US\$8,729,000 was settled by offsetting amounts due from joint ventures classified as non-current.
- (ii) The increase in interests in associates of US\$2,849,000 was settled by offsetting amounts due from associates.

45. CONTINGENCIES

At the end of the reporting period, the Group had contingent liabilities as follows:

	2016 US\$'000	2015 US\$'000
Guarantees given to banks in respect of banking facilities granted to		
(i) joint ventures		
– amount guaranteed	49,375	59,625
– amount utilized	16,950	23,000
(ii) associates		
– amount guaranteed	56,771	56,376
– amount utilized	983	3,099

In the opinion of the directors, the fair value of the financial guarantees given to the banks by the Group are insignificant at initial recognition. Also, after taking into consideration the probability of default by the joint ventures and associates, the management of the Company is of the opinion that no provision is required to be recognized in the consolidated statement of financial position as at December 31, 2016 and 2015.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

46. RETIREMENT BENEFITS PLANS

a) Defined contribution plans

The Group operates a Mandatory Provident Fund Scheme (“MPF Scheme”) for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The workers under subcontracting agreements and employees of the Group’s subsidiaries in the PRC are subject to retirement benefit schemes established in the PRC. Specified percentages of their payroll are contributed to retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the contributions at rate specified under the schemes. No forfeited contributions are available to reduce the contribution payable in the future years.

The employees employed in Vietnam are members of the state-managed retirement benefit schemes operated by the Vietnamese government. The subsidiaries incorporated in Vietnam are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The Group has no further payment obligations once the contributions have been paid.

b) Defined benefit plan

The Group provides defined benefit plan for the employees in Indonesia as required under Indonesian Labor Law.

The plan exposes the Group to actuarial risks such as interest rate risk, longevity risk and salary risk.

Interest rate risk A decrease in the bond interest rate will increase the plan liability.

Longevity risk The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan’s liability.

Salary risk The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan’s liability.

No other post-retirement benefits are provided to these employees in Indonesia.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

46. RETIREMENT BENEFITS PLANS (continued)

b) Defined benefit plan (continued)

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at December 31, 2016 by P.T. Padma Radya Aktuaria, Fellow of the Institute of Actuaries in Indonesia. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	Valuation at December 31, 2016
Normal pension age	55 – 56 years
Discount rates	8.50 – 8.75%
Expected rates of salary increase	5 – 10%
Mortality rates	100% Tabel Mortality Indonesia ("TMI") ³
Disability rate	5% TMI ³
Resignation rates	5% – 15% until age 25 – 30 then decreasing linearly into 0% at age 55 – 56

Amounts recognized in comprehensive income in respect of the defined benefit plan is as follows:

	US\$'000
Service cost:	
Current service cost	6,899
Past service cost and gain from settlements	(426)
Net interest expense	4,325
Components of defined benefit costs recognized in profit or loss	10,798
Remeasurement on the net defined benefit liabilities:	
Actuarial losses arising from experience adjustments	4,150
Actuarial losses arising from changes in financial assumptions	3,279
Actuarial losses arising from changes in demographic assumptions	190
Foreign exchange gains	(603)
Components of defined benefit costs recognized in other comprehensive income	7,016
Total	17,814



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

46. RETIREMENT BENEFITS PLANS (continued)

b) Defined benefit plan (continued)

The service cost and the net interest expense for the year are included in the employee benefits expense in profit or loss.

The remeasurement of the net defined benefit liabilities is included in other comprehensive income.

Movements in the present value of the defined benefit obligations in the current year were as follows:

	US\$'000
Balance at January 1, 2016, included in other payables	46,083
Current service cost	6,899
Interest cost	4,325
Past service cost, including gains on curtailments	(426)
Remeasurement:	
Actuarial losses arising from experience adjustments	4,150
Actuarial losses arising from changes in financial assumptions	3,279
Actuarial losses arising from changes in demographic assumptions	190
Exchange differences on foreign plans	938
Benefits paid	(2,752)
Balance at December 31, 2016	62,686

Significant actuarial assumptions for the determination of the defined benefits obligations are discount rate and expected salary growth. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate increase (decrease) by 1%, the defined benefit obligation would decrease by US\$6,317,000 (increase by US\$7,386,000).
- If the expected salary growth increases (decreases) by 1%, the defined benefit obligations would increase by US\$7,937,000 (decrease by US\$6,863,000).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the consolidated statement of financial position.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

47. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules.

The transactions with these parties during the year, and balances with them at the end of the reporting period, are as follows:

(I) CONNECTED PARTIES

Name of connected party	Nature of transactions/balances	2016 US\$'000	2015 US\$'000
<i>Substantial shareholder of the Company with significant influence:</i>			
PCC and its subsidiaries, other than members of the Group (collectively the "PCC Group")	Purchase of raw materials, production tools and shoe-related products by the Group (note a)	760	758
	Merchandise costs reimbursed to PCC Group under the Services Agreements by the Group (note b)	259,815	275,687
	Expenses reimbursed to PCC Group under the Services Agreements by the Group (note b)	98,717	92,003
	Service fees paid to PCC Group under the Services Agreements by the Group (note b)	19,879	16,083
	Rental expenses under the Rental Agreements paid by the Group (note c)	547	560
	Interest expenses paid by the Group	1,553	1,034
	Sales of leather, moulds, finished and semi-finished shoe products and packaging boxes by the Group (note a)	3,549	2,173
	Management services income received by the Group (note d)	31	54
	Balance due from/to as at year end and included in:		
	– trade receivables	766	744
– trade payables	37,590	32,911	
– other receivables (note f)	5,915	7,464	
– other payables (note g)	66,375	63,008	



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

47. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(I) CONNECTED PARTIES (continued)

Name of connected party	Nature of transactions/balances	2016 US\$'000	2015 US\$'000
<i>Companies controlled by a substantial shareholder of the Company and of which the said substantial shareholder and a director of the Company are among the ultimate discretionary beneficiaries</i>			
Golden Brands Developments Limited ("Golden Brands") and its subsidiaries (collectively the "Golden Brands Group")	Management services income received by the Group (note d)	50	51
	Balance due from/to as at year end and included in:		
	– other receivables (note f)	4	5
	– other payables (note f)	9	8
Godalming Industrial Limited	Rentals paid on land and buildings by the Group (note e)	4,613	4,678
	Balance due from/to as at year end and included in:		
	– other receivables (note f)	653	171
	– other payables (note f)	399	2

note: All the transactions on the table above falls under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) under the Listing Rules.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

47. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(II) OTHER RELATED PARTIES

Name of related party	Nature of transactions/balances	2016 US\$'000	2015 US\$'000	
Joint ventures	Purchase of raw materials by the Group	151,052	174,467	
	Purchases of footwear products by the Group	–	895	
	Sales of shoe-related products by the Group	20,144	18,270	
	Sales of sportswear products by the Group	1,773	3,472	
	Management service income received by the Group	1,379	1,432	
	Interest income received by the Group	557	712	
	Rental income received by the Group	1,530	2,081	
	Balance due from/to as at year end and included in:			
	– trade receivables	1,291	1,410	
	– trade payables	35,353	46,455	
	– other receivables (note f)	10,053	8,033	
– other payables (note f)	1,390	2,933		
Associates	Purchase of raw materials by the Group	49,790	55,881	
	Sales of shoe-related products by the Group	3,772	8,271	
	Management service income received by the Group	2,195	2,182	
	Service fee paid by the Group	3,056	2,742	
	Interest income received by the Group	27	–	
	Rental income received by the Group	1,659	1,380	
	Balance due from/to as at year end and included in:			
	– trade receivables	249	585	
	– trade payables	6,484	8,343	
	– other receivables (note f)	8,910	7,166	
	– other payables (note f)	286	361	



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

47. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(III) COMPENSATION OF KEY MANAGEMENT PERSONNEL

	2016 US\$'000	2015 US\$'000
Short term benefits	2,957	3,758
Post employment benefits	2	2
	2,959	3,760

The remuneration of key management personnel is determined having regard to the performance of the individuals.

notes:

- (a) During the year, the Group sold leather, moulds, finished and semi-finished shoe products and packaging boxes to PCC Group. In addition, the Group purchased raw materials, production tools and shoe-related products from the PCC Group. The extent of these connected sales and purchases did not exceed the limit approved by the shareholders of the Company on November 27, 2014. PCC is owned indirectly through Plantegenet Group Limited as to 7.24% by members of Tsai's family, including a director of the Company, Ms. Tsai Pei Chun, Patty.
- (b) Pursuant to services agreement dated February 22, 1997, first supplemental services agreement dated January 9, 2007, second supplemental services agreement dated November 20, 2008, third supplemental services agreement dated August 25, 2011, fourth supplemental services agreement dated September 15, 2014 for the 3 months ended December 31, 2014 and fifth supplemental services agreement dated October 21, 2014 for a term of 3 years commencing from January 1, 2015 entered into between the Company and PCC (collectively the "Services Agreements"), the Company has engaged PCC to provide product research and development, know-how, technical and marketing services and to source raw materials and recruit staff in relation to the production and sale of the Group's products. The services to be provided by PCC may be provided by or through members of the PCC Group, but PCC will remain fully liable for the provision of these services. In consideration of the services provided by the PCC Group under the Services Agreements, the Company is obligated to reimburse the merchandise costs and expenses incurred by PCC.

In addition, the Company shall also pay to PCC the following service fees:

- (i) in respect of the products developed by the PCC Group and sold by the Group, 0.5% of the net invoiced amount of such products;
- (ii) in respect of materials, machinery and other goods purchased by shipment arranged for and inspected by the PCC Group on behalf of the Group from within Taiwan, 1% of the merchandise cost invoiced to the PCC Group; and
- (iii) in respect of materials, machinery and other goods sourced by PCC Group on behalf of the Group in Taiwan or overseas whereby purchases are directly handled by the Group, 0.5% of the cost of merchandise invoiced to the Group.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

47. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

notes: (continued)

- (c) Pou Yuen Technology Co., Ltd. (99.81% beneficially owned subsidiary of PCC) as landlord and Yue Dean Technology Corporation (a wholly-owned subsidiary of the Company) as tenant entered into a lease agreement on January 9, 2007, the respective supplemental lease agreements on November 20, 2008 and August 25, 2011 for leasing of premises of Pou Yuen Technology Co., Ltd. for a term of 3 years commencing from October 1, 2011 and supplemental lease agreements on September 15, 2014 and October 21, 2014 for a term of 3 months ended December 31, 2014 and a term of 3 years commencing from January 1, 2015 respectively (collectively the "Rental Agreement").

The premises under the Rental Agreement is all located in Taiwan.

The rental on property was based on agreed monthly rental under the Rental Agreement equivalent to the open market rental value at the date of entering the Rental Agreement, as certified by an independent valuer in Taiwan.

- (d) Highmark Services Limited ("Highmark"), a wholly-owned subsidiary of the Company, entered into certain supplemental management service agreements respectively with PCC and Golden Brands on January 9, 2007, November 20, 2008, August 25, 2011, September 15, 2014 for a term of 3 months ended December 31, 2014 and October 21, 2014 for a term of 3 years commencing from January 1, 2015 for the provision of management services to PCC and Golden Brands and their subsidiaries.

Golden Brands is owned as to 94.12% by a discretionary trust and its sub-funds set up by Mr. Tsai Chi Jui, a substantial shareholder of the Company, for the benefits of Mr. Tsai Chi Jui, Ms. Tsai Pei Chun, Patty (being a director of the Company) and certain members of the Tsai's family.

In consideration of the services and facilities provided by Highmark, under the above agreements, Highmark charged PCC and Golden Brands the following fees:

- (i) in respect of common services provided by Highmark, a 10% mark up on the aggregate costs incurred by Highmark;
- (ii) in respect of the supply of electricity by Highmark, the aggregate of the costs of the oil consumed with a 5% mark up and the cost of overheads incurred for the production of electricity incurred by Highmark. In respect of electricity provided by the public sector, a service fee of RMB0.16 for each Kilowatt-hour unit of electricity is charged in addition to the price charged by the public sector;
- (iii) in respect of supply of water by Highmark, a charge with reference to the price charged by the local authority; and
- (iv) in respect of accommodation – related services, a service charge with reference to the price charged to independent third party for similar services.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

47. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

notes: (continued)

- (e) Godalming is owned as to 85.45% by a discretionary trust and its sub-funds set up by Mr. Tsai Chi Jui, a substantial shareholder of the Company, for the benefits of Mr. Tsai Chi Jui, Ms. Tsai Pei Chun, Patty (being a director of the Company) and certain members of the Tsai's family. The rentals on properties paid to Godalming were based on a tenancy agreement dated June 8, 1992, together with a supplemental tenancy agreement which was entered into between the Group and subsidiaries of Godalming on August 25, 2011 for a lease term of 3 years commencing from October 1, 2011. The Group and the subsidiaries of Godalming have entered into supplemental tenancy agreements on September 15, 2014 and October 21, 2014 for a term of 3 months ended December 31, 2014 and a term of 3 years commencing from January 1, 2015 respectively.

The rental is based on the open market rates which are referenced to valuation performed by independent professional valuers.

- (f) The amounts due from/to are unsecured and repayable on demand. Except for an aggregate amount of US\$3,513,000 (2015: US\$4,329,000) due from certain joint ventures and an amount of US\$635,000 (2015: nil) due from an associate which carry variable interest rates ranging from 5.00% to 6.72% (2015: 5.00% to 6.72%) and 2.43% (2015: nil) per annum respectively, the remaining amounts are interest-free.
- (g) The amounts due to are unsecured and repayable on demand. Except for the amount of US\$41,691,000 (2015: US\$44,099,000) included in other payables which carries fixed interest rate of 3.4% (2015: 4.0%) per annum, the remaining balance is interest-free.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

48. NON-CONTROLLING INTERESTS

	Interests attributable to shares held in subsidiaries US\$'000	Share options reserve of a listed subsidiary US\$'000 (Note 37(c))	Shares held under share award scheme of a listed subsidiary US\$'000	Share award reserve of a listed subsidiary US\$'000 (Note 37(d))	Total US\$'000
At January 1, 2015	378,328	5,219	(1,168)	82	382,461
Profit for the year	27,690	-	-	-	27,690
Exchange difference arising on the translation of foreign operations	(18,522)	-	-	-	(18,522)
Share of other comprehensive expenses of associates and joint ventures	(343)	-	-	-	(343)
Total comprehensive income for the year	8,825	-	-	-	8,825
Purchase of shares under share award scheme	-	-	(10,863)	-	(10,863)
Recognition of equity-settled share-based payments, net of amounts forfeited relating to share options and share awards not yet vested	-	16	-	397	413
Exercise of a subsidiary's share options	45	(40)	-	-	5
Contribution from non-controlling interests of subsidiaries	5,459	-	-	-	5,459
Disposal of subsidiaries	(5,701)	-	-	-	(5,701)
Acquisition of additional interests in subsidiaries	967	-	-	-	967
Dividends paid to non-controlling interests of subsidiaries	(13,922)	-	-	-	(13,922)
At December 31, 2015	374,001	5,195	(12,031)	479	367,644
Profit for the year	41,507	-	-	-	41,507
Remeasurement of defined benefits obligations, net of tax	(233)	-	-	-	(233)
Exchange difference arising on the translation of foreign operations	(19,801)	-	-	-	(19,801)
Share of other comprehensive expenses of associates and joint ventures	(126)	-	-	-	(126)
Total comprehensive income for the year	21,347	-	-	-	21,347
Purchase of shares under share award scheme	-	-	(9,034)	-	(9,034)
Recognition of equity-settled share-based payments, net of amounts forfeited relating to share options and share awards not yet vested	-	71	-	1,023	1,094
Repurchase of ordinary share of a subsidiary	(9,163)	-	-	-	(9,163)
Exercise of a subsidiary's share options	2,123	(1,065)	-	-	1,058
Contribution from non-controlling interests of subsidiaries	3,643	-	-	-	3,643
Acquisition of additional interests in subsidiaries	(9,969)	-	-	-	(9,969)
Dividends paid to non-controlling interests of subsidiaries	(14,090)	-	-	-	(14,090)
At December 31, 2016	367,892	4,201	(21,065)	1,502	352,530



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

49. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at December 31, 2016 and 2015 are as follows:

Name of subsidiary	Country/ place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of issued and fully paid share capital/ registered capital		Principal activities
			attributable to the Group 2016	2015	
A-Grade Holdings Limited	BVI	US\$9,000	62.41%+	61.27%+	Investment holding
Bangladesh Pou Hung Industrial Ltd	Bangladesh	US\$4,800,000	100%	100%	Manufacture and sales of footwear
Baosheng Daoji (Beijing) Trading Company Limited	PRC**	US\$65,000,000	62.41%+	61.27%+	Retailing of sportswear
Dah-Chen Shoe Materials Ltd.	Vietnam	US\$850,000	51%	51%	Manufacture of shoe pads
Farsighted International Limited	BVI	US\$100	62.41%+	61.27%+	Investment holding and its subsidiaries are engaged in retailing of sportswear and sports footwear
Forearn Company Ltd.	BVI	US\$62,970,000	100%	100%	Manufacture of shoe moulds
Guangzhou Baoyuen Trading Company Limited	PRC****	US\$23,310,000	62.41%+	61.27%+	Retailing of sportswear
Great Pacific Investments Ltd.	BVI	US\$1,000	100%	100%	Investment holding
Harbin Baosheng Sports Goods Company Limited	PRC**	RMB22,000,000	62.41%+	61.27%+	Retailing of sportswear
Hefei Baoxun Sports Goods Trading Company Limited	PRC***	RMB1,000,000	62.41%+	61.27%+	Retailing of sportswear
Highfull Developments Limited	BVI	US\$1	100%	100%	Investment holding
Idea (Macao Commercial Offshore) Limited	Macao	MOP100,000	100%	100%	Manufacture and sales of footwear
Key International Co., Ltd.	BVI	US\$196,000,001	100%	100%	Investment holding



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

49. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Country/ place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of issued and fully paid share capital/ registered capital attributable to the Group		Principal activities
			2016	2015	
Kunshan Taisong Trading Co., Ltd.	PRC****	US\$26,500,000	62.41% ⁺	61.27% ⁺	Distribution of licensed products
Major Focus Management Limited	BVI	US\$1	100%	100%	Investment holding
Myanmar Pou Chen Company Limited	Myanmar	US\$90,000,000	100%	100%	Manufacture and processing of footwear
P.T. Glostar Indonesia	Indonesia	US\$162,000,000	100%	100%	Manufacture and sales of footwear
P.T. Nikomas Gemilang	Indonesia	IDR1,306,680,000,000	100%	100%	Manufacture and sales of footwear
P.T. Pou Chen Indonesia	Indonesia	US\$64,000,000	96.25%	96.25%	Manufacture and sales of footwear
P.T. Pou Yuen Indonesia	Indonesia	US\$122,500,000	100%	100%	Manufacture and sales of footwear
Pou Chen Vietnam Enterprise Ltd.	Vietnam	US\$36,389,900	100%	100%	Manufacture and sales of footwear
Pou Chien Chemical Co., Ltd	Taiwan	NTD1,050,000,000	100%	100%	Investment holding
Pou Chien Chemical (Holdings) Limited	BVI	US\$60,300,001	100%	100%	Investment holding
Pou Hung Vietnam Company Limited	Vietnam	US\$60,000,000	100%	100%	Manufacture and sales of footwear
Pou Li Vietnam Company Limited	Vietnam	US\$33,000,000	100%	100%	Manufacture and sales of footwear
Pou Sheng	Bermuda*	HK\$53,377,000	62.41%	61.27%	Investment holding
Pou Sung Vietnam Co., Ltd	Vietnam	US\$87,000,000	100%	100%	Manufacture and sales of footwear
Pou Yuen Cambodia Enterprise Limited	Cambodia	US\$4,000,000	100%	100%	Manufacture and sales of footwear
Pou Yuen Industrial (Holdings) Limited	Hong Kong	Ordinary – HK\$12,000,000 6% cumulative preference – HK\$433,600,000	100%	100%	Investment holding and property holding



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

49. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Country/ place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of issued and fully paid share capital/ registered capital attributable to the Group		Principal activities
			2016	2015	
Pau Yuen Trading Corporation	Taiwan	NTD50,000,000	56.17% ⁺⁺	55.14% ⁺⁺	Distribution of licenced products
Pouyuen Vietnam Company Limited	Vietnam	US\$146,406,000	100%	100%	Manufacture and sales of footwear
Prime Asia (S.E. Asia) Leather Corporation	BVI	US\$50,000,000	100%	100%	Manufacture and sales of leather
Prime Asia Leather Corporation	BVI	Class A: US\$45,000,000 Class B: US\$45,000,000	100%	100%	Investment holding
Pro Kingtex Industrial Company Limited	BVI	US\$13,792,810	95.25%	91.68%	Manufacture of apparel
Selangor Gold Limited	BVI	US\$1,000	62.41% ⁺	61.27% ⁺	Investment holding
Shanghai Baoyuen Sports Goods Company Limited	PRC ^{**}	US\$30,000,000	62.41% ⁺	61.27% ⁺	Retailing of sportswear
Shanxi Baosheng Trading Company Ltd. (formerly known as Xian Bao Qiu Trading Company Ltd.)	PRC ^{**}	US\$66,000,000	62.41% ⁺	61.27% ⁺	Retailing of sportswear
Shengdao (Yangzhou) Sporting Goods Dev. Co., Ltd	PRC ^{**}	US\$66,000,000	62.41% ⁺	61.27% ⁺	Investment holding
Sheng Gao Yisen Industry Co., Ltd.	PRC ^{**}	US\$20,390,000	100%	100%	Manufacture and sales of footwear
Shengdao (Chengdu) Trading Co., Ltd (formerly known as Pou Yu (Chengdu) Trading Co., Ltd.)	PRC ^{**}	US\$22,400,000	62.41% ⁺	61.27% ⁺	Retailing of sportswear



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

49. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Country/ place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of issued and fully paid share capital/ registered capital attributable to the Group		Principal activities
			2016	2015	
Taiwan Taisong Trading Co., Ltd.	Taiwan	NTD30,000,000	62.41% ⁺	61.27% ⁺	Distribution of licensed products
The Look (Macao Commercial Offshore) Company Limited	Macau	MOP100,000	100%	100%	Manufacture and sales of footwear
Top Units Developments Limited	BVI	US\$11,000,000	51%	51%	Investment holding
Upturn Investments Limited	BVI	US\$1,700,000	100%	100%	Manufacture of paper inner boxes and carton boxes
Wellmax Business Group Limited	BVI	US\$9,000	62.41% ⁺	61.27% ⁺	Investment holding
Wuxi Baoyuen Sports Goods Trading Company Limited	PRC***	RMB1,000,000	62.41% ⁺	61.27% ⁺	Retailing of sportswear
Yue De Vietnam Company Limited	Vietnam	US\$44,500,000	100%	100%	Manufacture and sales of footwear
Yue Yuen Industrial Limited	Hong Kong	Ordinary – HK\$1,000 Non-voting deferred – HK\$47,000,000	100%	100%	Investment holding and property holding
Yunnan Shengdao Sports Goods Company Limited	PRC***	RMB87,500,000	37.45% ⁺⁺	36.76% ⁺⁺	Property leasing and management
YY Sports Holdings Limited	BVI	US\$1	62.41% ⁺	61.27% ⁺	Investing holding
Zhejiang Yichuan Sports Goods Chain Company Limited	PRC***	RMB164,000,000	62.41% ⁺	61.27% ⁺	Retailing of sportswear



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

49. PRINCIPAL SUBSIDIARIES (continued)

- * Pou Sheng is a listed company on the Stock Exchange.
- ** These companies are wholly-foreign owned enterprises established in the PRC.
- *** These companies are wholly-domestic owned enterprises established in the PRC.
- **** This company is a sino-foreign owned enterprise established in the PRC.
- + These companies were wholly-owned subsidiaries of Pou Sheng as at the end of the reporting period.
- ++ These companies were non-wholly owned subsidiaries of Pou Sheng as at the end of the reporting period.

The deferred shares carry no rights to receive notice of or to attend or vote at any general meeting of the respective companies and have no rights to dividends or to participate in any distributions on winding up.

The above table lists the subsidiaries of the Company 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.

None of the subsidiaries had any debt securities outstanding during the year or at the end of the period.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2016

49. PRINCIPAL SUBSIDIARIES (continued)

At the end of the reporting period, the composition of the Company's subsidiaries are as follows. Majority of these subsidiaries operate in the PRC. The principal activities of these subsidiaries are summarized as follows:

Principal activities	Country/place of incorporation/ establishment	Number of subsidiaries	
		2016	2015
Manufacturing and/or sales of footwear	PRC	18	22
	Indonesia	9	8
	Vietnam	7	7
	Macau	2	2
	Others	9	9
Investment holding and/or property holding	PRC	15	19
	Hong Kong	35	35
	Taiwan	2	2
	Macau	1	1
	Others	79	79
Manufacturing and/or sales of apparel and others	PRC	8	12
	Indonesia	2	1
	Vietnam	4	4
	Taiwan	4	6
	Others	17	19
Retailing business	PRC	57	45
	Hong Kong	1	1
	Taiwan	3	2
		273	274



Financial Summary

	For the fifteen months ended December 31,		For the year ended December 31,		2016 US\$'000
	2012 US\$'000	2013 US\$'000	2014 US\$'000	2015 US\$'000	
RESULTS					
Revenue	9,193,226	7,582,471	8,013,432	8,434,915	8,480,558
Profit before taxation	636,900	454,219	380,058	484,203	652,156
Income tax expense	(25,578)	(25,232)	(37,312)	(66,330)	(76,089)
Profit for the year/period	611,322	428,987	342,746	417,873	576,067
Attributable to:					
Owners of the Company	623,701	434,768	331,020	390,183	534,560
Non-controlling interests	(12,379)	(5,781)	11,726	27,690	41,507
	611,322	428,987	342,746	417,873	576,067
As at December 31,					
	2012 US\$'000	2013 US\$'000	2014 US\$'000	2015 US\$'000	2016 US\$'000
ASSETS AND LIABILITIES					
Total assets	6,836,110	6,992,706	7,171,120	7,264,486	7,611,774
Total liabilities	(2,414,714)	(2,256,256)	(2,389,677)	(2,398,277)	(2,517,778)
	4,421,396	4,736,450	4,781,443	4,866,209	5,093,996
Equity attributable to:					
Owners of the Company	4,002,788	4,338,658	4,398,982	4,498,565	4,741,466
Non-controlling interests	418,608	397,792	382,461	367,644	352,530
	4,421,396	4,736,450	4,781,443	4,866,209	5,093,996

