TRISTATE

Tristate Holdings Limited

Annual Report 2016

Stock code: 458

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Corporate Information

WANG KOO Yik Chun
Honorary Chairlady

Board of Directors

Executive Director:

WANG Kin Chung, Peter,
Chairman and Chief Executive Officer

Non-Executive Directors:

WANG KOO Yik Chun, *Honorary Chairlady*
MAK WANG Wing Yee, Winnie
WANG Shui Chung, Patrick

Independent Non-Executive Directors:

LO Kai Yiu, Anthony
James Christopher KRALIK
Peter TAN

Audit Committee

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

Remuneration Committee

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

Share Option Committee

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

Chief Financial Officer

AU King Lun, Paulina

Company Secretary

TO Hon Fai

Auditor

KPMG, *Certified Public Accountants*

Legal Advisors

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

Principal Bankers

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

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Head Office and Principal Place of Business in Hong Kong

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

Corporate Communications

The Company Secretary
Tristate Holdings Limited
5th Floor, 66–72 Lei Muk Road
Kwai Chung, New Territories
Hong Kong
Tel : (852) 2279-3888
Fax : (852) 2423-5576
Email : cosec@tristateww.com

Listing Information

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 1988.

Stock short name : Tristate Hold
Stock code : 458
Board lot : 1,000 shares

Principal Registrar and Transfer Office

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda
Tel : (441) 299-3882
Fax : (441) 295-6759

Branch Registrar and Transfer Office

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

Five-Year Financial Summary

	2016	2015	2014	2013	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Consolidated Statement of Profit or Loss					
Revenue	**2,253,655**	2,515,738	3,580,029	3,599,903	3,387,877
(Loss)/profit for the year attributable to:					
Equity shareholders of the Company	**(84,091)**	(45,669)	148,277	43,439	109,045
Non-controlling interests	**(2,520)**	(22)	21	(36)	(26)
(Loss)/profit for the year	**(86,611)**	(45,691)	148,298	43,403	109,019
Basic (loss)/earnings per share attributable to equity shareholders of the Company	**HK$(0.31)**	HK$(0.17)	HK$0.55	HK$0.16	HK$0.40

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014	As at 31 December 2013	As at 31 December 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Consolidated Statement of Financial Position					
Non-current assets	**676,865**	821,069	802,932	975,666	1,002,503
Current assets	**1,199,914**	1,401,159	2,041,360	1,761,598	1,568,538
Current liabilities	**527,933**	743,478	1,175,690	1,109,124	952,621
Net current assets	**671,981**	657,681	865,670	652,474	615,917
Total assets less current liabilities	**1,348,846**	1,478,750	1,668,602	1,628,140	1,618,420
Non-current liabilities	**112,873**	96,904	115,631	171,358	217,537
Net assets	**1,235,973**	1,381,846	1,552,971	1,456,782	1,400,883
Total equity attributable to equity shareholders of the Company	**1,238,121**	1,381,532	1,552,635	1,456,467	1,400,532
Non-controlling interests	**(2,148)**	314	336	315	351
Total equity	**1,235,973**	1,381,846	1,552,971	1,456,782	1,400,883

Chairman's Statement

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Our Business

For the year ended 31 December 2016, the Group recorded a loss attributable to equity shareholders of HK$84 million as compared with the reported loss of HK$46 million in 2015. Notwithstanding our garment manufacturing business returned to profitability in this year, the increase in loss is mainly attributable to substantially lower consultancy fee income from the Jack Wolfskin China business, persisting soft retail market that impacted our China distribution business, and the Group's new brand investment, in particular the brand "C.P. Company".

The ongoing transitions of our China distribution business have impacted the Group's financial performance. Following the Jack Wolfskin distribution license termination in March 2015, the consultancy fees income from the Jack Wolfskin China business are reducing annually on agreed calculation basis. The Group's 2016 and 2017 consultancy fees income are substantially lower than that of 2015 as expected. Also, after the contractual expiry of the Nautica distribution license on 31 December 2016, the Group has ceased the distribution of Nautica brand products in China and Hong Kong. The Group and the Nautica licensor had entered into agreements for the business transition, and the Nautica licensor agreed to pay the Group US$3 million for the transition.

Despite the challenges to our distribution business, the Group continues to grow our own brands and look for licensing opportunities. In 2016, the Group has combined effort to build the global organisation and operations of C.P. Company and work out the Fall/Winter 2016 fulfilment and the Spring/Summer 2017 collection. The brand began to contribute revenue to the Group after acquisition by Tristate. With positive response and confidence from the trade, both Fall/Winter 2016 and Spring/Summer 2017 revenue of the brand attained high double-digit growth over last year of homologous seasons. There were particular strong growth in our key markets, the United Kingdom, Italy, Korea and France where brand awareness has always been strong. These markets are growth engine for the brand in the coming years. New growth markets such as Germany, Russia and Scandinavia also showed growth as we gained new doors in prominent retailers.

EFM is an "athlux" NYC designer brand and participates in the higher-end global "athleisure" market segment. Our principal designer and founder, Mr. Donrad Duncan, received the Fashion Group International's 2016 Rising Star Award for Menswear, and EFM has gained more traction in the industry. The brand also came into the limelight when it struck a distribution deal with Saks Fifth Avenue. We have also seen success with sell-through in high-profile specialty accounts such as Martin Patrick and Ron Herman. Our premium ladies' wear Cissonne is gradually expanding through direct retailing in China major cities and has now five stores in China.

We are pleased that our garment manufacturing business has returned to profitability in 2016. Our strategic measures to expand business with global fashion brands customers and transfer the dress up business to low cost Indochina production base proved successful. Our continuing efficiency enhancement and cost rationalisation in our Hefei factory in the last year also helped to increase profitability.

Results and Dividends

For the year ended 31 December 2016, the Group recorded a loss attributable to equity shareholders of HK$84 million (2015: HK$46 million). The Board of Directors of the Company does not recommend the payment of a final dividend.

Our Strategy

Tristate's strategy is to build a group of global brands recognised for their product-centric innovation and cultural authenticity, and create synergy with our unique manufacturing expertise and product innovation capability.

Brand Development

C.P. Company products are masterpieces that incorporate more than 40 years of know-how in fabric development, special dying and garment construction. After the brand being acquired by Tristate, C.P. Company remains true to its unique brand DNA. We see many opportunities ahead with significant growth potentials. In the coming years, we will focus business growth on existing key wholesale markets, and at the same time further expand new growth markets in Europe as well as enter into the strategic North America market. Direct retail channels will be added at suitable time and location. We will enhance brand awareness and drive strong sell-through by bold marketing through the brand's digital channels, pan-Europe advertising campaign as well as various public relations and in-store activities. We also plan to promote C.P. Company through collaboration with well-known brands.

EFM is positioned as an "athlux" NYC designer brand and participates in the higher-end global "athleisure" market segment. EFM is produced exclusively by Tristate's Trinovation Lab and represents the pinnacle of made in China luxury technical menswear innovation. EFM will enhance overall brand recognition with end customers through marketing partnership with Saks Fifth Avenue.

Cissonne, our premium ladies lifestyle brand, is created as an international flavour female brand. Its ladies wears use luxury natural fibre material together with technical fabrics and are inspired by ballerina elegance. Cissonne will continue to develop through direct retailing in China major cities cautiously.

Garment Manufacturing

Tristate is a recognised leader in outerwear and dress up garment manufacturing. Adding to the expression of tailoring and craftsmanship expertise, Tristate also embraces technological innovation into the production flow.

We operate a multi-level automation and specialisation production system using special machines and skill modules. This production system allows for new technologies, automation and specialised skill operators to build sub-assembly components in a multi-level processing flow, coordinated by a pull system and tracked by a batch bar coding system. With this system, we are able to guarantee quality consistency, high productivity, and at the same time, quickly integrate into many different forms of product. It also helps to control rising factory costs and price pressure from our customers.

Product Innovation

In response to the 21st century fashion's desire for continuous innovation and ever greater functionality, our luxury sportswear R&D division, Trinovation Lab, which is housed in our Hefei industrial compound, is dedicated to the hybrid combination of luxury and high performance wear, with its visual special effects, increased functionality, comfort and low weight. Trinovation Lab is a product centric laboratory and collaborates closely with our own brands offering them the cutting-edge high performance technologies for deep research, experimentation and creative risk-taking to produce powerful new hybrid fashion products. The laboratory is able to simultaneously work on all three parts of product innovation: material, construction and design.

Human Resources

With many talented, experienced and dedicated staffs in our Group, we continue to focus on enhancing teamwork across functions and geographies. We shall maintain our best practices to become a leader in the industry in attracting and retaining branding and manufacturing talents.

Outlook

For the year 2017, the global economy is still surrounded by uncertainties including potential changes in international trade policies, uncertain political and currencies conditions in Europe and China's economic stability. Apart from macroeconomic factors, apparel industry is facing headwinds from online channel. There are positive viewpoints on specific apparel business segment. Athleisure and athlux apparel catching the sneaker trend can be more resilient against the online headwind. Easy fit and photogenic apparel products face less online transaction friction. Popular luxury brands where design, visual merchandising are their competitive advantages will continue to win at physical retail channels. Amid the challenging market conditions and change in retail industry dynamics, Tristate is on the right direction to invest and grow our brands of luxury clothing and high performance with product-centric innovation and cultural authenticity that riding headwinds.

In the near term, the Group's top-line and performance will be impacted by the expiry of Nautica license and a lower consultancy fee income from the Jack Wolfskin China business. We will strive to maintain the profitability of our garment manufacturing business. For the long-term sustainability and profitability, we will focus to grow C.P. Company's existing key markets and at the same time enter into new growth and strategic markets.

We are cautious, and at the same time, invest and build the foundation for the future. We shall continue to create synergy between brand development, our unique manufacturing expertise and product innovation. The Group has its competitive strengths and talented professionals and continued innovation, we are confident that we shall be able to rise to the challenges ahead.

Appreciation

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

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Hong Kong, 27 March 2017

Management Discussion and Analysis

In this Management Discussion and Analysis, we present the business review and a discussion on the financial performance of the Group for the year ended 31 December 2016.

Overview

For the year ended 31 December 2016, the Group recorded a loss attributable to equity shareholders of HK$84 million (2015: loss of HK$46 million). Notwithstanding our garment manufacturing business returned to profitability in the year, the increase in loss is mainly attributable to substantially lower consultancy fee income from the Jack Wolfskin China business, persisting soft retail market that impacted our China distribution business, and the Group's new brand investment, in particular the brand "C.P. Company".

Our China distribution business is under ongoing transitions that impact the Group's financial performance. As mentioned in the 2015 annual report, upon the termination of the Jack Wolfskin distribution license in March 2015, the Group receives consultancy fees from Jack Wolfskin Trading (Shanghai) Co., Ltd. ("JW PRC Co") from 2015 to 2017 that are reducing annually on agreed calculation basis. As a result, the Group's 2016 and 2017 consultancy fees income are substantially lower than that for 2015. Also, after the contractual expiry of the Nautica distribution license on 31 December 2016, the Group has ceased the distribution of Nautica brand products in China and Hong Kong. The Group and the Nautica licensor had entered into agreements for the business transition, and the Nautica licensor agreed to pay the Group US$3 million for the transition.

Despite the above challenges to our distribution business, the Group continues to grow our own brands and look for licensing opportunities. In 2016, the Group has combined effort to set up the global organisation and operations of C.P. Company for the long-term foundation of the business, complete Fall/Winter 2016 fulfilment and prepare the Spring/Summer 2017 collection. The brand began to contribute revenue to the Group from Fall/Winter 2016 in the second half year after the change of ownership. With positive response and confidence from the trade, both Fall/Winter 2016 and Spring/Summer 2017 revenue of the brand attained high double-digit growth over last year of homologous seasons. There were particular strong growth in our key markets the United Kingdom (the "UK"), Italy, Korea and France where brand awareness has always been strong. New growth markets such as Germany, Russia and Scandinavia also showed growth as we gained new doors in prominent retailers. The business growth is encouraging for the brand to unlock its full potential. In the Outlook section below, we provide more information on our strategy to grow C.P. Company in the coming years.

Both Engineered for Motion (EFM) and Cissonne are also at development stage gaining traction. EFM is an "athlux" NYC designer brand and participates in the higher-end global "athleisure" market segment. Our principal designer and founder, Mr. Donrad Duncan, received the Fashion Group International's 2016 Rising Star Award for Menswear, and EFM has gained more traction in the industry. EFM also came into the limelight when it struck a distribution deal with Saks Fifth Avenue starting from Fall/Winter 2016 and is now featured as a pinnacle brand in this growing segment. The partnership with Saks Fifth Avenue has progressed from online in Fall/Winter 2016 to being stocked in the retail doors for Spring/Summer 2017. We have also seen success with sell-through in high-profile specialty accounts such as Martin Patrick and Ron Herman. The brand's Fall/Winter 2017 collection, which was featured in a highly-publicised runway show in January 2017 at the CFDA's New York Fashion Week, was well-received by key retailers and media alike. Our premium ladies' wear Cissonne is gradually building its brand through direct retailing in China major cities. During the year 2016, Cissonne opened its stores in Beijing Sanlitun and Hangzhou MIXC Shopping City. The brand has now five stores in China, including the stores in Shanghai Kerry Centre, Shanghai Zhenning Road and Hangzhou Tower Shopping City.

Our garment manufacturing business has returned to profitability in 2016 following our continued effort. Our strategic measures to expand business with global fashion brands customers and transfer the dress up business to low cost Indochina production base – Vietnam and Myanmar proved successful. Our continuing efficiency enhancement as well as cost rationalisation in our Hefei factory in the last year also helped to increase profitability.

Financial Highlights

	Note	**2016**	2015	Change
Operating results (HK$ million)				
Revenue		**2,254**	2,516	–10%
Gross profit		**530**	581	–9%
EBIT before non-recurring items	1	**(63)**	1	–6,400%
Non-recurring loss before tax		**–**	(16)	–100%
Loss from operations after non-recurring items		**(63)**	(15)	–320%
Loss attributable to equity shareholders		**(84)**	(46)	–83%
Segment results (HK$ million)				
Garment manufacturing segment results before non-recurring items and tax		**71**	4	+1,675%
Garment manufacturing segment results after non-recurring items and tax		**60**	(19)	+416%
Branded product business segment results before tax		**(80)**	21	–481%
Branded product business segment results after tax		**(80)**	(11)	–627%

Management Discussion and Analysis

	Note	2016	2015	Change
Financial position (HK$ million)				
Current assets		**1,200**	1,401	−14%
Current liabilities		**528**	743	−29%
Cash and bank balances		**523**	666	−21%
Bank borrowings		**199**	325	−39%
Total equity		**1,236**	1,382	−11%
Cash flow and capital expenditure (HK$ million)				
Cash generated from operations		**68**	196	−65%
Capital expenditure				
Property, plant and equipment		**(30)**	(22)	+36%
Trademark		**–**	(166)	−100%
Key ratios				
Gross profit margin		**23.5%**	23.1%	+0.4 pp
Operating (loss)/profit margin before non-recurring items		**(2.8%)**	0.1%	−2.9 pp
Net loss margin attributable to equity shareholders		**(3.7%)**	(1.8%)	−1.9 pp
Return on average equity (ROE)	2	**(6.4%)**	(3.1%)	−3.3 pp

Notes:

1. Non-recurring items represent restructuring costs as included in the consolidated statement of profit or loss.

2. ROE is calculated as loss attributable to equity shareholders over average total equity for the current and prior years.

Financial Review

Revenue

Total revenue of the Group for the year 2016 was HK$2,254 million (2015: HK$2,516 million), representing a decrease of 10% as compared with 2015.

Revenue from the branded product distribution, retail and trading segment was HK$378 million as compared with HK$588 million in 2015. The decrease is mainly due to the 2015 revenue included HK$204 million sales of Jack Wolfskin products in the People's Republic of China (the "PRC") up to the brand's license termination in March 2015. The decrease in top line was also driven by tough and promotional operating environment to our Nautica China distribution business in 2016. Changing spending patterns and the shift to e-commerce has put tremendous pressure on traditional sales channels. Despite the above, C.P. Company brand began to contribute revenue to the Group from the second half of 2016. Its sales revenue was encouraging and surpassed the prior year's revenue (run by the previous brand owner).

Revenue from the garment manufacturing segment was HK$1,876 million as compared with HK$1,928 million in 2015. Revenue from higher margin global fashion brands decreased by 2% in 2016 as compared with 2015. This was mainly attributable to the drop in orders by customers who were working down their inventory level. In 2016, global fashion brands customers accounted for 60% (2015: 59%) of the segment revenue. In general, the increase in sales of outerwear products shifted our peak production season to the second and third quarters while sales income are skewed towards Fall/Winter seasons. Sales to national brands customers decreased by 3% in 2016 as we have reduced our capacity for some categories with challenging price.

Geographically, major markets of the Group are the PRC, the United States of America ("US") and Canada and the UK, which accounted for 27% (2015: 37%), 40% (2015: 33%) and 25% (2015: 23%) respectively of the Group's total revenue. The change in geographical sales proportion is mainly due to the drop in the Group's China distribution revenue.

The Group's business has been increasingly skewed towards the second half year mainly due to the seasonality effect of Fall/Winter and holiday seasons shipment of outerwear products and wholesale sales. The Group expects that the pattern of a larger proportion of sales and earnings record in the second half of the year will continue in the future.

Gross Profit

During the year, the Group's overall gross profit recorded at HK$530 million (2015: HK$581 million), representing a gross profit margin of 23.5% (2015: 23.1%). The gross profit decrease as compared with 2015 mainly represented the net impact of lack of gross profit from the Jack Wolfskin China business after license termination in March 2015, and the increase in gross profit of our garment manufacturing business.

The Group's overall gross profit margin slightly improved as compared with 2015. Gross profit margin of the branded product business slightly decreased amid the margin pressure from the tough China retail market. Gross profit margin of the garment manufacturing segment was better than the previous year despite a drop in revenue. The improved margin is attributable to our continued improvements in production efficiency and cost control mainly in our China factories, as well as the benefit carried from labour rationalisation in our Hefei factory in the last year.

Other Income and Other Gains

Other income and other gains mainly include consultancy and transitional services fees income from the Jack Wolfskin China business. Due to different calculation basis, the 2016 consultancy fee income from JW PRC Co, which was calculated on agreed percentage of the 2016 gross profit of JW PRC Co, was substantially lower than the consultancy fee income in 2015 (which being substantially the entire pre-tax earnings of JW PRC Co for the period from the license termination date to 31 December 2015).

Selling and Distribution Expenses

Selling and distribution expenses comprise mainly advertising and promotion, shop expenses and royalty of the branded product distribution, retail and trading business. Selling and distribution expenses decreased as compared to 2015 mainly due to royalty and advertising expenses dropped following the Jack Wolfskin license termination in March 2015. While the Group controlled selling and advertising costs for Nautica and HASKI, planned advertising costs for C.P. Company was spent during the year.

General and Administrative Expenses

General and administrative expenses dropped by 6% to HK$506 million as compared with HK$541 million in 2015 mainly due to Jack Wolfskin license termination and cost control.

Income Tax Expenses

Income tax expenses for the year mainly included current income tax under our garment manufacturing business and reversal of certain deferred tax assets previously recognised under our China distribution business following squeeze on bottom line.

Segment Results

In 2016, the loss incurred by our branded product business was mainly due to reduction in consultancy fee income from JW PRC Co and investment in our brands throughout the year.

Segment results for garment manufacturing business improved in 2016 due to improvement in gross profit and savings in selling and administrative expenses.

Due to reduced revenue from the branded product business, only certain central corporate costs were allocated to that segment in 2016, therefore unallocated cost increased as compared with 2015.

Apart from the acquisition of the Japan distributor of C.P. Company in March 2016 at a consideration of HK$5 million, there were no material acquisitions or disposals of subsidiaries or associated companies during the year and up to the date of this report. No important events affecting the Group have occurred since 31 December 2016 and up to the date of this report.

Working Capital

The Group's working capital elements as included under current assets and current liabilities decreased mainly due to reduced working capital requirement following the contractual expiry of the Nautica distribution license by end of 2016, and lower outstanding receivables as compared with 2015.

Financial Resources and Liquidity

As at 31 December 2016, cash and bank balances amounted to HK$523 million (2015: HK$666 million) which mainly represented United States dollars ("US dollars") and Renminbi bank deposits. Short-term bank borrowings of the Group amounted to HK$199 million as at 31 December 2016 (2015: HK$325 million). Such borrowings were denominated in US dollars. As at 31 December 2016, HK$199 million (2015: HK$313 million) of the short-term bank borrowings were interest bearing at fixed rates, and no bank borrowings were at floating rates (2015: HK$12 million). The Group maintained sufficient banking facilities and did not have any long-term bank borrowings outstanding as at 31 December 2016. As at 31 December 2016 and 2015, banking facilities extended to the Group were not secured with the Group's assets. The gearing ratio of the Group is calculated as net borrowings divided by total capital. Net borrowings were calculated as total bank borrowings less cash and bank balances, while total capital comprised total equity plus net borrowings. The Group did not have net borrowings as at 31 December 2016, and accordingly, no information on gearing ratio as at that date is provided.

Cashflow from operation decreased as compared with the previous year mainly due to lack of Jack Wolfskin PRC sales receipt in 2016, the payment of start-up costs for C.P. Company; and the drop was partially offset by more cash inflow from the garment manufacturing business.

Shareholders' equity at 31 December 2016 decreased mainly due to exchange difference on translating the financial statements of subsidiaries in the PRC following the currency depreciation of Renminbi during 2016, loss attributable to equity shareholders for the current year and changes in hedging reserve for the forward contracts.

Most of the Group's receipts and payments are denominated in US dollars, Hong Kong dollars, Renminbi, Pound Sterling and Euro. Management monitors the related foreign exchange risk exposure by entering into forward foreign exchange contracts. During the year ended 31 December 2016, the Group had forward foreign exchange contracts to hedge against the foreign exchange exposures arising from US dollars denominated processing income for factories in the PRC and Pound Sterling sales receipts of a European subsidiary. Foreign currency exchange rates are volatile. Management evaluates the Group's foreign currency exposure on a continuing basis and takes actions to minimise the Group's exposure whenever necessary.

Contingent Liabilities and Capital Commitments

There were no material capital commitments or contingent liabilities as at 31 December 2016 which would require a substantial use of the Group's present cash resources or external funding.

Human Resources

The Group had about 10,680 employees as at 31 December 2016 (2015: 11,680). Fair and competitive remuneration packages and benefits are offered to employees. Those employees with outstanding performance were also awarded discretionary bonuses and share options.

Outlook

The year 2017 has showed improved sentiment regarding economic recovery in advanced countries, most notably the US following Donald Trump's presidential election victory. However, uncertainties are still surrounding the global economy, including potential changes in international trade policies, uncertain political and currencies conditions in the Europe and China's economic stability. The Group will stay focused on our strategy to build global brands and create greater synergy with our unique manufacturing expertise and product innovation capability.

The acquisition of C.P. Company brand brought the Group's branded product business to a new phase. We will grow C.P. Company through product differentiation, multiple sales channels and marketing efforts. C.P. Company products are masterpieces that incorporate more than 40 years of know-how in fabric development, special dying and garment construction. We will strengthen product range, innovation and design, widen our collections and ensure earlier delivery and faster shipments that affect sell-through ability. With a solid foundation, we will focus to grow existing key wholesale markets. These markets are growth engine for the brand in the coming years. We will further expand new growth markets in Europe as well as enter into the strategic North America market. Our main showroom in Milan opened in early 2017, which was highly received by existing and new European customers. In the US, we also opened a C.P. Company showroom in Soho New York in January 2017. We will add direct retail channels at suitable time and location. In addition, we established C.P. Company's proprietary e-commerce site in early 2017 and at the same time utilise distributors and online giant existing site platforms to promote online sales. We need a bold storytelling and marketing of C.P. Company to customers to enhance brand awareness and credibility as well as drive strong sell-through. This involves the brand's all digital channels, intense public relations activities through existing worldwide press offices and in-store communication tools. Our pan-Europe advertising campaign will begin to roll out in 2017. We also plan to promote C.P. Company through collaboration with well-known brands.

EFM will enjoy sales growth in 2017 as we reach an ever-wider audience through our key accounts in the US as well as launching distribution in Europe in the second half of 2017.

Cissonne will build customer loyalty for its unique and premium products with excellent fabric innovation. The brand will grow direct to customer retail in China cautiously. Cissonne plans to open two more shops in 2017.

Our garment manufacturing business's return to profitability in 2016 is very positive to the Group. 2017 is still challenging for our manufacturing business. Selling prices remained under pressure due to uncertain consumer demand as well as the high inventory and promotional environment. We shall continue to expand our business with global fashion brands customers for producing complicated outerwear products. We now have outerwear products produced in our China and Thailand factories while dress up business for mass market at competitive pricing are focused in low cost Indochina production base – Vietnam and Myanmar. We shall continue to apply our unique manufacturing system in our factories to guarantee quality consistency, high productivity and finally cost efficiency. We will continue to exercise tight cost control in all our operations.

In the near term, the Group's top-line and performance will be impacted by the expiry of Nautica license and a lower consultancy fee income from the Jack Wolfskin China business. We will strive to maintain the profitability of our garment manufacturing business. For the long-term sustainability and profitability, we will focus to grow C.P. Company's existing key markets and at the same time enter into new growth and strategic markets. We are cautious, and at the same time, invest for the future. We are confident that we shall be able to rise to the challenges ahead.

Principal Risks and Uncertainties

The Group has an enterprise risk management mechanism in place to identify, evaluate and manage its exposure to risks. Management oversees the risks and implement robust business processes to mitigate the risks. Existing and emerging risks are identified, evaluated and tracked regularly by top management and reported to the Audit Committee.

Principal risks and uncertainties affecting the Group are outlined below:

External Risks	Operational Risks	Financial Risks
Economic Slowdown	Increased Cost	Liquidity and Interest Rate
Business Partner's Change in Business Strategy	Environment and Social Responsibility	Foreign Exchange
Regulatory Risks		

The responses of the Group to the principal risks and uncertainties are set out below:

Nature of Risks	Responses
External Risks	
Economic Slowdown – The principal business activities of the Group are garment manufacturing and global branding business with worldwide customers located in Europe, North America and Asia. The industries in which the Group operates are affected by the economic conditions and consumer spending behavior in these locations. – Global sustained economic slowdown may lead to reduced customer orders.	– Geographic spread of customers and multiple sales channels will mitigate localised economic risks. – Annual budget is approved by the Board. – Quarterly financial performance and forecast are reported to the Board. – Internal review between Business Unit Heads and Corporate Finance Team on the monthly financial performance. – Monthly rolling forecast review where annual budget will be compared with actual and forecast figures. Variance analysis to account for the difference between budget and actual figures. – Monthly meeting to review business, sales and marketing performance.
Business Partner's Change in Business Strategy – Garment manufacturing customer's strategy change in sourcing locations and competitive pricing may cause the Group to lose orders and revenue. – Change in market entry and licensing strategy by brand owners of our licensed brands has caused the Group to lose distribution rights in licensing branded products.	– Our factories are located in different countries and serve a wide range of products with different price levels. – The Group's ongoing strategy in developing global branding business will help to mitigate the impact of loss of revenue in distributing branded products.
Regulatory Risks – The Group is increasingly subject to a broad and changing legal, tax, and regulatory requirements in various jurisdictions the Group operates. New and changing policies or applications by governments may pose a risk to the Group's returns and/or subject the Group to legal challenge.	– The Group continually monitors changes in local government policies and legislation. – Ongoing long term strategic reviews with assessment of market and country concentration.
Operational Risks	
Increased Cost – Increased cost will impact the profitability of our business.	– For our global branding business, we have our own sourcing team with diversified supply network to handle product sourcing. – For garment manufacturing business, our Group effectively earns cut and make profit. Increased cost in fabric material has little impact to the Group. – Diversification of factories in various countries in Asia and production process improvements will help to offset the rise in wages and staff costs.
Environment and Social Responsibility – Failure to comply with applicable laws, regulations or standards related to environment and social responsibility may adversely impact our employees, lose production time and attract negative media attention and regulators' interest.	– Manage internal controls over our significant environmental aspects with aim to enhance the efficiency of resource use and reduce environmental emissions in our business operation. – Apply equal opportunities principles in all employment policies.

Nature of Risks	Responses
Financial Risks	
Liquidity and Interest Rate	
– Cash and treasury management may not be operating effectively leading to liquidity risk.	– Closely monitor to ensure that the combination of cash on hand, available credit lines and expected future operating cash flows is sufficient to satisfy current and planned cash needs.
– Cashflows and profitability will be negatively impacted by the movement of interest rates on bank balances and bank borrowings.	– Closely monitor the movement of market interest rate and consider interest rate hedging when necessary.
Foreign Exchange	
– The Group has operations in the PRC, Europe, North America and Japan. It earns revenues, incurs costs and makes investments in various foreign currencies and is thus exposed to foreign exchange risk arising from various currency exposures.	– The Group manages significant foreign exchange risk against the respective subsidiaries' functional currencies arising from future commercial transactions, recognised assets, liabilities and net investment in foreign operations principally by means of forward foreign exchange contracts. Our hedging strategy may not be effective in reducing all exchange risks.
– The conversion of Renminbi receipts into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange in the PRC.	– The Group endeavours to maintain adequate and reasonable amount of Renminbi deposits in the PRC and remit surplus Renminbi out of the PRC.

Relationship with Business Partners and Stakeholders

Relationship with Customers

The Group maintains long-term relationships with customers of our garment manufacturing and branded products business. The Group has developed multi-products strategy and also strengthened our scope of services to our global brands customers. The Group has no concentration or a high level of dependency on individual customer.

Relationship with Suppliers

The Group maintains long-term relationships with suppliers and subcontractors. The Group has no concentration or a high level of dependency on a small groups of suppliers. The suppliers of our garment manufacturing business are generally nominated by customers. For suppliers of our branded business, we communicate with them all the way through for them to understand our policies and requirements.

Relationship with Employees

The Group recognises and supports the culture of attracting, motivating and retaining talents. The Group provides competitive compensation and benefits for its employees. Remuneration packages are generally structured by reference to market and individual merits. Salaries are normally reviewed on an annual basis based on individual performance and financial performance of the Group. Those employees with outstanding performance are also awarded discretionary bonuses and share options. The Group promotes open communications encourages continuous learning and support different kind of training on leadership development programme.

Compliance with Relevant Laws and Regulations

We uphold high standards and meet relevant requirements under applicable laws or ordinances when conducting our business. We did not identify non-compliance or breach of relevant standards, rules and regulations during the year.

Environmental and Social Policies

The Group is committed to creating a sustainable and greener environment and continues to explore ways to reduce carbon emission, conserve energy and reduce wastage. We have implemented various environmental and sustainability initiatives in our factories. Being a responsible social citizen, the Group has been committed to supporting various charitable events, including making donations in relation to education, disaster reliefs and for the less-privileged, in particular supporting local society needs where our group companies locate for the long term. Since 2015, the Company has been participating in the Caring Company Scheme and we collaborated with The Salvation Army on various charitable activities, such as fund raising and volunteer works. Our first "Environmental, Social and Governance Report", which discusses in detail our initiatives on environmental and social aspects and their performance, is set out in the "Environmental, Social and Governance Report" section of this Annual Report.

Corporate Governance Practices

The Board is committed to maintaining good corporate governance and recognises the importance of effective corporate governance.

Throughout the year ended 31 December 2016, the Company has complied with all the Code Provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), except for the deviation from Code Provisions A.2.1, A.5 and A.6.7.

Details of the corporate governance practices adopted by the Company are set out below.

The Board

Board Composition

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

The Board annually reviews its structure, size and composition to ensure the Board has the appropriate balance of skills, experience and diversity of perspectives that are required to implement the business strategy of the Group and in order for the Board to be effective.

The Board has adopted a board diversity policy with an aim to set out the approach to achieve diversity on the Board. Pursuant to the policy, Board diversity would be considered from a number of factors including, but not limited to, gender, age, ethnicity, cultural and education background, professional experience, skills and knowledge. An analysis of the current Board composition is set out in the following chart:

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

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

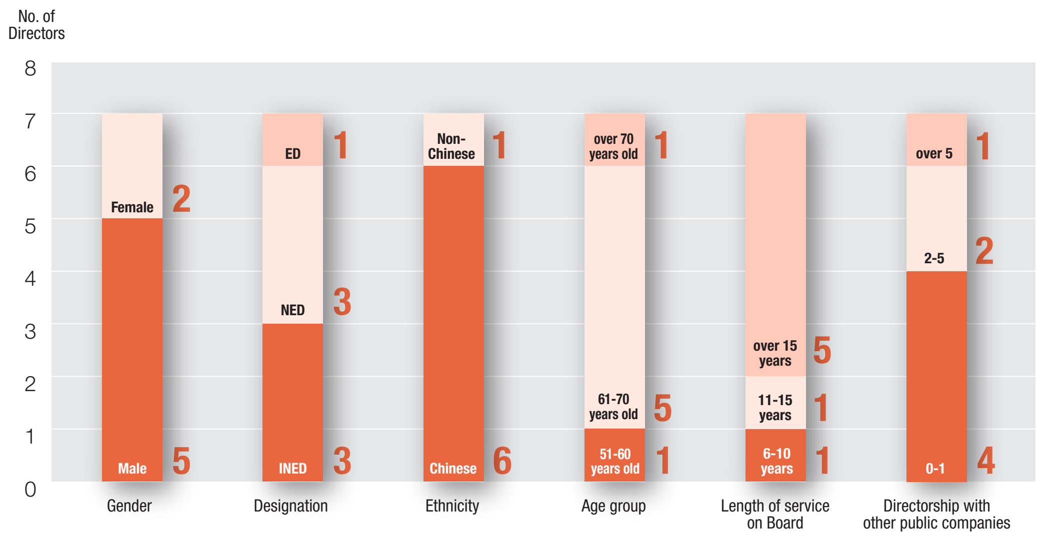
The Company maintains on its website and on the Stock Exchange's website an updated list of its Directors identifying their role and function.

Chairman and Chief Executive Officer

During the year ended 31 December 2016 and up to the date of this report, Mr. WANG Kin Chung, Peter is the Chairman and the CEO, and that the functions of the Chairman and the CEO in the Company's strategic planning and development process overlap. These constitute a deviation from Code Provision A.2.1 which stipulates that the roles of the Chairman and the CEO should be separate and should not be performed by the same individual.

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

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



ED : Executive Director
NED : Non-Executive Director
INED : Independent Non-Executive Director

Appointment and Election of Directors

The Company has not established a nomination committee owing to the small size of the Board. The Board as a whole shall perform the duties of a nomination committee set out in Code Provision A.5. This constitutes a deviation from Code Provision A.5 which stipulates that every listed company should establish a nomination committee.

Non-Executive Directors (including Independent Non-Executive Directors) are appointed for a specific term. Their last term of appointment had expired on 31 December 2016 and a term of three years has been renewed commencing 1 January 2017, subject to re-election or earlier determination in accordance with the Bye-Laws of the Company and/or applicable laws and regulations.

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

Accordingly, at the forthcoming annual general meeting of the Company to be held on 5 June 2017 (the "2017 AGM"), Ms. WANG KOO Yik Chun and Mr. Peter TAN will retire by rotation and, being eligible, offer themselves for re-election as Directors in accordance with the Bye-Laws.

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

Roles and Responsibilities

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

The Board is mainly responsible for setting and approving the Company's strategic direction and planning all important matters including the preparation of interim and annual results, annual financial budget, and business and operation plans.

The Company has a formal schedule of matters specifically reserved for Board approval. Matters explicitly reserved for the Board's decision include, amongst other things, (i) the size, composition, structure and role of the Board and the Board committees, (ii) the suitability of any individual as a member of the Board or the Board committees, (iii) the appointment and removal of the CEO, (iv) monitoring the performance of the CEO to ensure the Group is in alignment with its strategic direction, and (v) the performance of corporate governance duties set out in Code Provision D.3.1. Responsibility for delivering the Company's objectives and running the business on a day-to-day basis is delegated to the management.

Non-Executive Directors and Independent Non-Executive Directors provide the Group with diversified expertise and experience. Their views and participation in Board and Board committees meetings bring independent judgement and advice on issues relating to the Group's strategies, performance and management process, to ensure that the interests of all shareholders are taken into account and safeguarded.

A Non-Executive Director and two Independent Non-Executive Directors did not attend the annual general meeting held in year 2016 (the "2016 AGM") due to their other prior engagements. This constitutes a deviation from Code Provision A.6.7 which stipulates that Independent Non-Executive Directors and other Non-Executive Directors should attend general meetings.

The Board periodically reviews the Company's practices on corporate governance, compliance with the CG Code, training and continuous professional development of Directors and Senior Management, and the disclosure in this report.

Independence of Non-Executive Directors

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

Induction and Development

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

The Group continuously updates Directors on the latest developments regarding the Listing Rules and other applicable legal and regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

During the year ended 31 December 2016, the Directors participated in the following continuous professional development:

Directors	Types of training
Executive Director:	
Mr. WANG Kin Chung, Peter	A, C
Non-Executive Directors:	
Ms. WANG KOO Yik Chun	C
Ms. MAK WANG Wing Yee, Winnie	A, C
Dr. WANG Shui Chung, Patrick	A, B, C
Independent Non-Executive Directors:	
Mr. LO Kai Yiu, Anthony	A, C
Mr. James Christopher KRALIK	A, C
Mr. Peter TAN	A, C

A: attending seminars, conferences and/or briefings on directors' duties and corporate governance, regulatory updates, and financial and economic development
B: giving speech at seminars and/or conferences
C: reading regulatory updates, newspapers, journals, and other business, financial and economic publications

Board Process

The Board requires Directors to devote sufficient time and attention to their duties and the Company's affairs. The Directors are also required to disclose to the Company annually the number and nature of offices held in public companies or organisations and other significant commitments with an indication of the time involved.

The Board meets regularly and Board meetings are held at least four times a year at quarterly intervals. Dates of regular Board meetings are scheduled in the prior year to provide sufficient notice to give all Directors an opportunity to attend. In addition, notice of at least 14 days is given for each regular Board meeting and the Directors are given opportunity to include matters for discussion in the agenda.

For regular Board meetings, and as far as practicable in all other cases, an agenda and accompanying Board papers are sent, in full, to all Directors at least three days before the meeting date.

Minutes of the meetings of the Board and Board committees are kept by the Company Secretary. Draft and final versions of minutes are sent to all Directors for their comment and records respectively, within a reasonable time after the meeting is held.

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

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter would be dealt with by a physical Board meeting rather than a written resolution.

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

Directors' Attendance Records

During the year ended 31 December 2016, four regular Board meetings have been held. The attendance of each Director at these Board meetings, Board committee meetings and the 2016 AGM is set out below:

	Number of meetings attended/held			
	Board	Audit Committee	Remuneration Committee	2016 AGM
Executive Director:				
Mr. WANG Kin Chung, Peter	4/4	N/A	N/A	1/1
Non-Executive Directors:				
Ms. WANG KOO Yik Chun	3/4	N/A	N/A	1/1
Ms. MAK WANG Wing Yee, Winnie	4/4	3/3	1/1	1/1
Dr. WANG Shui Chung, Patrick	4/4	N/A	N/A	0/1
Independent Non-Executive Directors:				
Mr. LO Kai Yiu, Anthony	4/4	3/3	1/1	1/1
Mr. James Christopher KRALIK	4/4	3/3	1/1	0/1
Mr. Peter TAN	3/4	N/A	1/1	0/1

N/A: Not applicable

Delegation by the Board

Board Committees

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

The Board has established the Audit Committee and the Remuneration Committee with terms of reference including the specific duties set out in the Code Provisions with appropriate modifications where necessary.

Apart from the Audit Committee and the Remuneration Committee, the Board has also established a Share Option Committee which comprises an Executive Director and a Non-Executive Director to deal with the administration of the share option scheme of the Company.

The terms of reference of the Audit Committee and the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

Audit Committee

The Audit Committee is responsible for reviewing the Company's financial information and overseeing the Company's financial reporting system, risk management and internal control systems.

A majority of the members of the Audit Committee are Independent Non-Executive Directors. During the year ended 31 December 2016 and up to the date of this report, the members of the Audit Committee are:

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

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

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

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

The Board agrees with the Audit Committee's proposal for the re-appointment of KPMG as the Company's external auditor for 2017. The recommendation will be presented for the approval of shareholders at the 2017 AGM.

The Audit Committee is provided with sufficient resources to perform its duties and has access to professional advice if necessary.

Upon recommendation of the Audit Committee, the Board has adopted a whistleblowing policy which provides a channel to employees of the Group to raise concerns, in confidence, about misconduct, malpractice or irregularities in any matters related to the Group. The policy is published on the website of the Company.

The attendance of each member at the Audit Committee meetings held during the year ended 31 December 2016 is set out in the "Directors' attendance records" section of this report.

During the year ended 31 December 2016, the Audit Committee held three meetings and the work performed is set out below:

(i) reviewed the 2016 annual budget and 2016 internal audit plan;

(ii) reviewed the draft annual report and audited financial statements of the Group for the year ended 31 December 2015 and recommended the same to the Board for approval;

(iii) made recommendation to the Board on the appointment of the external auditor at the 2016 AGM and considered the proposed external auditor's remuneration;

(iv) reviewed the draft interim report and unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2016 and recommended the same to the Board for approval;

(v) reviewed the audit service plan from the external auditor, reviewed their independence and discussed with them the nature and scope of audit for the year ended 31 December 2016 and their reporting obligations, considered and approved their terms of engagement;

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

(vii) reviewed the proposed new risk management framework, draft risk management policy, and risk management update;

(viii) reviewed the environmental, social and governance reporting guide;

(ix) monitored the whistleblowing policy program throughout the year;

(x) reviewed the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget; and

(xi) reviewed compliance and regulatory issues.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board regarding the Company's remuneration policy. It has the delegated responsibility for the formulation, determination and review of the remuneration packages of Directors and Senior Management. No Director is involved in deciding his/her own remuneration.

A majority of the members of the Remuneration Committee are Independent Non-Executive Directors. During the year ended 31 December 2016 and up to the date of this report, the members of the Remuneration Committee are:

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

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

Mr. James Christopher KRALIK is the Chairman of the Remuneration Committee.

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

The attendance of each member at the Remuneration Committee meeting held during the year ended 31 December 2016 is set out in the "Directors' attendance records" section of this report.

During the year ended 31 December 2016, the Remuneration Committee held one meeting and the work performed is set out below:

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

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

(iii) made recommendation to the Board for further shareholders' approval at the 2016 AGM of the adoption of a new share option scheme and termination of the existing share option scheme which would expire on 2 April 2017.

Management Functions

The day-to-day management of business of the Group is delegated to management. The Board has given clear directions to management on the matters that must be approved by it before decisions are made on the Company's behalf.

The Board has adopted the terms of reference of the Board and management to formalise the functions reserved to the Board and those delegated to management. The terms of reference are subject to periodic review to ensure that they remain appropriate to the Group's needs.

Management of the Group is aware that it has an obligation to supply the Board and its committees with adequate, complete and reliable information, in a timely manner, to enable them to make informed decisions. The Board and individual Director have separate and independent access to the Company's senior management. All Directors are entitled to have access to Board papers and related materials. Queries raised by Directors would receive a prompt and full response.

Remuneration of Directors and Senior Management

The emoluments payable to the Directors are determined at arm's length on the basis of the responsibilities involved, time devoted, current financial position of the Company and the prevailing market conditions. At the 2016 AGM, the shareholders approved the authorisation of the Directors to fix their remuneration.

The policy adopted for the remuneration of the Non-Executive Directors since 1 January 2015 is set out below:

(i) Annual director's fee for each Non-Executive Director — HK$49,500

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

	Column A (As Chairman/ Chairlady) *(Note 1)*	**Column B (As participating member)** *(Note 2)*
Fee for attending each Board meeting	HK$20,650	HK$20,650
Fee for attending each Audit Committee meeting	HK$41,300	HK$20,650
Fee for attending each Remuneration Committee meeting	HK$12,400	HK$12,400
Fee for attending each Board committee meeting	HK$33,000	HK$16,500
Fee for attending each independent Board committee meeting	HK$33,000	HK$16,500
Fee for attending each Share Option Committee meeting	HK$8,250	HK$8,250

Notes:

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

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

The remunerations of members of Senior Management for the year ended 31 December 2016 are within the following bands:

	Number of individuals
Up to HK$3,000,000	**4**
HK$3,000,001 to HK$6,000,000	**3**
	7

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2016.

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

Accountability and Audit

Financial Reporting

It is the responsibility of the Board to present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects. Management provides the Board with monthly updates on the Group's performance and financial highlights.

The Directors acknowledge that they are responsible for preparing the accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the results and cash flow for the year then ended. In preparing the accounts for the year ended 31 December 2016, the Directors have:

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

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

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

A statement by the Auditor about their reporting responsibilities is included in the Independent Auditor's Report on page 38.

Risk Management and Internal Controls

The Board recognises the importance of sound and effective risk management and internal controls systems, and its overall responsibility for the integrity and reliability of the Group's financial reporting. A new enterprise risk management and internal controls system ("ERM") designed to help the Group achieve its business objectives has been implemented during the year ended 31 December 2016. Having said that, the ERM serves 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.

Under the ERM, the process of risk management consists of four main steps, namely identification, evaluation, mitigation and reporting to the Board of Directors and the risks are categorised into five main types, i.e. strategic, operational, financial, compliance and event. Under the ERM, the Group maintains a set of risk registers to record the significant risks that will prevent itself from achieving its business objectives. Risk exposures are rated by reference to the likelihood of occurrence of an event that will prevent the Group from achieving its objective and the impact of the event. Risk owners who are also members of senior management team will monitor the business practices on an ongoing basis and take mitigation measures to manage the risk exposures. The risk registers will be revised, reviewed and approved once a year by the Audit Committee, in order to ensure that any emerging risks arisen from changes in market, external environment or Group's business activities will be taken into account for continuous risk assessment.

The Board, through the Audit Committee, has reviewed the effectiveness of the ERM and has covered the processes for financial, operational and compliance controls for the year ended 31 December 2016. The Board is not aware of any major issues of concern and considers the ERM effective and adequate. Appropriate measures have been taken to address areas identified for improvement.

Both the Board and the Audit Committee have reviewed and are satisfied with the adequacy of resources, including staff qualifications and experience, training programmes and budget, of the Group's accounting, internal audit and financial reporting functions.

Inside Information Policy

The Group has adopted a policy setting out the practices and procedures for ensuring inside information of the Group is promptly identified, assessed and disseminated to the public in an equal and timely manner in accordance with applicable laws and regulations. Proper safeguards are in place to prevent the breach of disclosure requirements and access to inside information is restricted to a limited number of employees on a need-to-know basis. Directors, officers and all relevant employees of the Group who have possessed inside information are required to preserve confidentially of inside information until it is publicly disclosed.

Internal Audit Function

The Group's enterprise risk management and internal controls system is evaluated by the internal audit department independently on an on-going basis and the audit reviews cover business activities with material risks across the Group on a rotational basis. The internal audit department adopts a risk management-based approach in developing the annual audit plan which aligns with the enterprise risk management and internal controls system and audit activities are designed and prioritised based on the results of risk assessment. The annual audit plan is reviewed and approved by the Audit Committee. Internal audit furnishes independent and objective evaluations and recommendations in the format of an audit report to management. During the year ended 31 December 2016, internal audit department executed the internal audit assignments in accordance with the approved annual internal audit plan.

To preserve the independence of the internal audit department, the Head of Internal Audit has unrestricted direct access and reports directly to the Audit Committee. In every Audit Committee meeting, the Head of Internal Audit reports to the Audit Committee on significant findings on risk management and internal controls, as well as the implementation status of corrective actions committed by management. During the year ended 31 December 2016, no significant control failure or significant areas of concern which might affect shareholders' interests were identified.

Auditors' Remuneration

In 2016, remunerations paid to KPMG, the Company's external auditor in respect of audit and non-audit services provided to the Group are set out below:

	2016 *HK$'000*
Annual audit fees	**2,290**
Tax services fees	**–**
Other services fees	**545**
Total	**2,835**

Company Secretary

The Company Secretary supports the Board by ensuring good information flow within the Board. All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures and all applicable rules and regulations are followed.

The Company Secretary is an employee of the Company and has satisfactorily fulfilled the professional training requirement.

Shareholders Relation

Shareholders Engagement and Communication

The Board endeavors to maintain an on-going dialogue with shareholders and in particular, uses annual general meetings or other general meetings to communicate with them and encourages their participation.

At the 2016 AGM:

(i) A separate resolution was proposed and dealt with by poll vote in respect of each separate issue, including the re-election of Directors;

(ii) The Chairmen of the Board and the Audit Committee, members of the Remuneration Committee, and the external auditor of the Company attended to answer questions of the shareholders; and

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

At the 2017 AGM, the Chairman of the meeting will demand a poll on all the resolutions in accordance with the requirements of the Listing Rules. The poll results will be posted on the websites of the Stock Exchange and the Company on the same day of the 2017 AGM.

The Board has adopted a shareholders communication policy which will be subject to periodic review to ensure its effectiveness. The policy is published on the website of the Company.

Shareholders' Rights and Investor Relations

Shareholders of the Company may exercise the following rights in accordance with the procedures set out below. Such procedures are also published on the website of the Company.

1. Convening a special general meeting ("SGM")

Shareholders holding not less than one-tenth of the paid-up capital of the Company can deposit a written request to convene a SGM at the registered office of the Company or the Hong Kong Branch Registrar or the head office of the Company, for the attention of the Company Secretary.

The written request must state the purposes of the meeting, signed by the shareholders concerned and may consist of several documents in like form each signed by one or more of those shareholders.

The request will be verified with the Hong Kong Branch Registrar and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to convene a SGM by serving sufficient notice in accordance with the statutory requirements to all the registered shareholders. On the contrary, if the request has been verified as not in order, the shareholders concerned will be advised of this outcome and accordingly, a SGM will not be convened as requested.

If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a SGM, the shareholders concerned, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a SGM, but the SGM so convened shall not be held after the expiration of three months from the said date.

The notice period to be given to all the registered shareholders for consideration of the proposal raised by the shareholders concerned at a SGM varies according to the nature of the proposal, as follows:

(i) fourteen days' or ten clear business days' notice in writing, whichever is the longer, if the proposal constitutes an ordinary resolution of the Company; or

(ii) twenty-one days' or ten clear business days' notice in writing, whichever is the longer, if the proposal constitutes a special resolution of the Company.

The period of notice shall in each case be exclusive of the day on which it is served or deemed to be served and inclusive of the day on which the meeting is to be held.

2. Putting forward proposals at general meetings

The number of shareholders required to move a resolution at general meetings by written request shall be:

(i) either any shareholders representing not less than one-twentieth of the total voting rights of all the shareholders having the right to vote at the general meeting; or

(ii) not less than one hundred shareholders.

The written request must state the resolution, accompanied by a statement of not more than one thousand words with respect to the matter referred to in the proposed resolution or the business to be dealt with at that meeting and signed by all the shareholders concerned and may consist of two or more copies which between them contain the signatures of all the shareholders concerned.

The written request must be deposited at the registered office of the Company or the Hong Kong Branch Registrar or the head office of the Company, for the attention of the Company Secretary not less than six weeks before the general meeting in case of a requisition requiring notice of a resolution, and not less than one week before the general meeting in the case of any other requisition.

The request will be verified with the Hong Kong Branch Registrar and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting provided that the shareholders concerned have deposited a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned in accordance with the statutory requirements to all the registered shareholders. On the contrary, if the request has been verified as not in order or the shareholders concerned have failed to deposit reasonably sufficient money to meet the Company's expenses for the said purposes, the shareholders concerned will be advised of this outcome and accordingly, the proposed resolution or business will not be included in the agenda for the general meeting.

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

3. Sending enquiries to the Board

The Company values communication with shareholders and investors. Enquiries and suggestions to the Board are welcomed by addressing them to the Company Secretary:

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

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

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

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

Amendments to the Bye-Laws

With the approval of shareholders at the 2016 AGM, the Company has adopted an amended and restated Bye-Laws to (i) improve administrative efficiency, (ii) update the Bye-Laws to reflect the Group's human resources requirement and (iii) bring the Bye-Laws in line with certain provision of the Listing Rules.

Details of the amendments to the Bye-Laws have been set out in the circular of the Company dated 26 April 2016. An updated version of the Bye-Laws is available on the websites of the Stock Exchange and the Company.

The 2017 AGM will be held at Room 5A, 5th Floor, 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong on Monday, 5 June 2017 at 10:00 a.m. The notice of the 2017 AGM will be sent to all shareholders separately. The Chairmen of the Board, the Audit Committee and the Remuneration Committee or their delegates, as well as the external auditor of the Company will attend the 2017 AGM to answer questions from the shareholders.

The important dates to shareholders in year 2017 are as follows:

Book close date for determining eligibility to attend and vote at the 2017 AGM:	Friday, 2 June 2017 to Monday, 5 June 2017, both days inclusive
2017 AGM:	Monday, 5 June 2017

Environmental, Social and Governance Report

1. Message from Chairman

The Group incorporates the core value of its Environmental, Social and Governance ("ESG") initiatives into our business philosophy over the years. It guides the Group to comply with the statutory and legal requirements.

We aspire to become the leading responsible garment manufacturer and branded business operator. To achieve this, we strive to produce quality products with reduced environmental and social impact through continuous improvement. Therefore, we create value for shareholders, employees and the wider community.

The Group's ESG vision and policy pilot its business directions. For every operational decision to be made, the relevant responsibility and its ESG impact will be taken into account, therefore, reflecting Tristate's devoted corporate citizenship.

The Group recognises the importance of environmental protection and we have made our best efforts in incorporating "green" measures when doing our business. The Group commits to reduce usage of toxic chemicals throughout the whole manufacturing processes, and it will also be extended to supply chain perspective.

Through the execution and expansion of our ESG initiatives, the Group continues to build up its business capabilities for the sustainable growth in the years to come.

2. About this Report

This is the first ESG Report of Tristate Holdings Limited (the "Company") and its subsidiaries (together, "Tristate" or the "Group").

In this report, we focus mainly on the manufacturing businesses of the Group, i.e. our manufacturing facilities across Asia including China, Thailand, Vietnam, Philippines and Myanmar. While majority of the production is based in the Hefei and Panyu factories, where the Group has relatively significant impact on the community, therefore, it forms the reporting scope of this report. We will gradually expand our reporting coverage to our other operations in other parts of Asia, Europe and the United States of America.

Supplementing our Annual Report, this report features our non-financial performance from 1 January 2016 to 31 December 2016 in key areas of Environmental Responsibility, People, Community Development as well as Products and Services. The report will be issued annually together with the Company's Annual report.

To enhance our sustainability reporting transparency and accountability, in the year of 2016, we conducted our first stakeholder engagement to identify and prioritise the most significant sustainability issues to be covered in this report.

This ESG Report is prepared in accordance with the general disclosure requirement of Environmental, Social and Governance Reporting Guide ("ESG Guide") in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "HKEx"). An index is included at the end of this Report to provide reference to ESG Guide.

We welcome any feedbacks on this report, our approach to ESG and overall performance.

3. Our Approach to ESG Reporting

3.1 Our Areas of Interest

The Group is committed to improving our ESG performance through the following areas:

Environmental Responsibility

The Group is committed to global environmental protection and the development of a low-carbon economy. Endeavour will be made to optimise the use of natural resources and minimise the impact on the environment by our operations. We go beyond regulatory compliance by adopting best practice in business operations and active stakeholder engagement if necessary.

People

The Group promotes fair competition and prohibits discrimination or harassment against any employee.

Equal opportunities principles are applied to all employees to recruitment, training and promotion. Child and forced labour is strictly prohibited.

We also ensure a safe workplace for our people to unleash their full potential and develop their career in the Group.

Community

The Group cares for the community and encourages employees to actively get involved in corporate social responsibility activities.

Endeavour will be made to create positive impact and address social issues in the community by devoting our business resources wherever possible. We support initiatives that serve the needs and improve the quality of life of the socioeconomically disadvantaged with the aim to foster social harmony in the communities we serve.

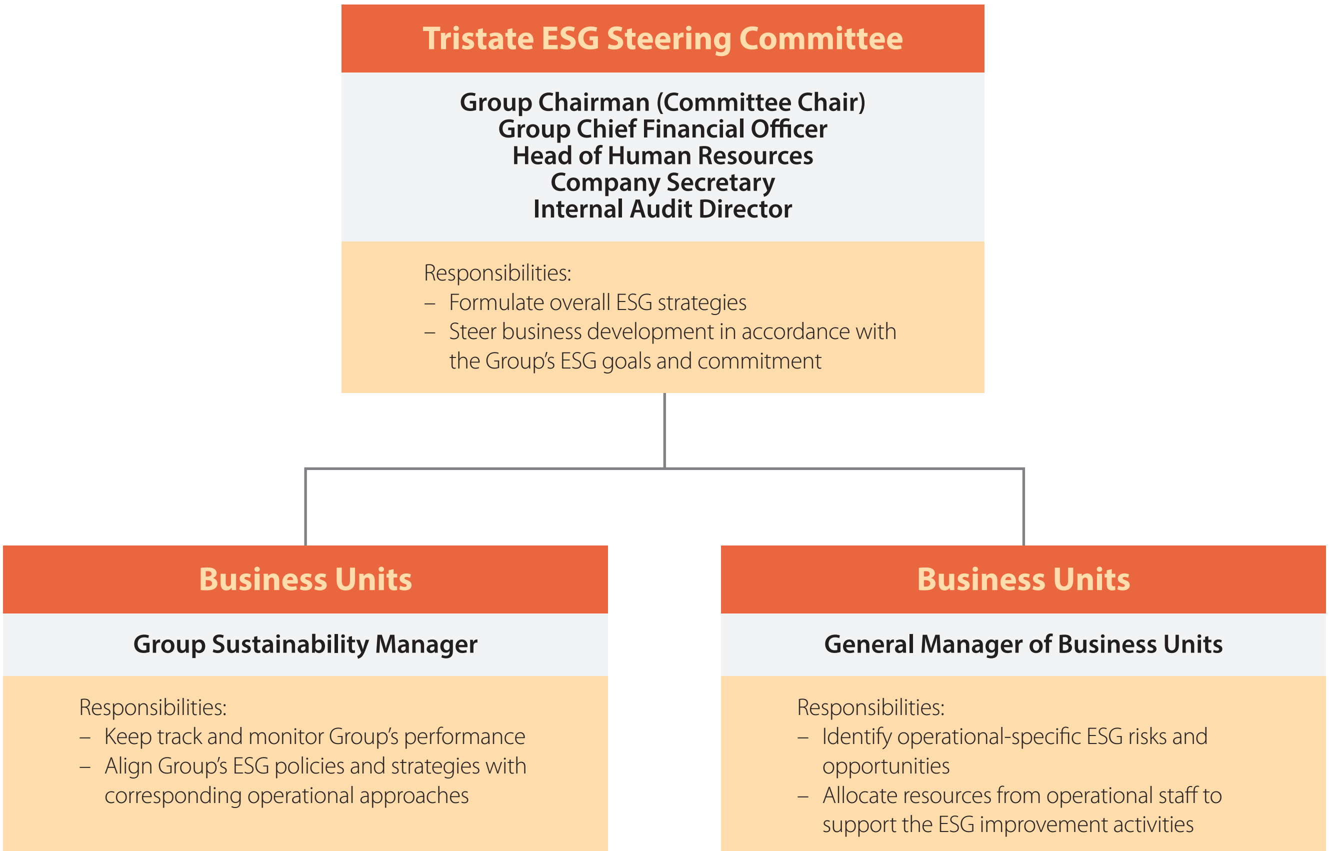
Products and Services

The Group is committed to providing quality products to our customers through regular quality inspections, supply chain management and customer engagement.

3.2 ESG Structure

To ensure our ESG strategies and approaches are effectively executed across the Group, a systematic internal governance structure is in place. The structure is composed of the Tristate ESG Steering Committee, Group Sustainability Manager, General Manager of the business units and the corresponding operational staff.

Our ESG structure and their corresponding responsibilities are listed below:



Operational staff will be assigned by respective General Manager or his/her delegates of various business units to execute the ESG improvement activities. All findings and recommendations will be reported to the ESG Steering Committee for compilation of experience and suggestion for further improvement.

3.3 Stakeholder Engagement

We understand that identification of materiality for the Group is a critical process. The materiality assessment will eventually affect our direction on setting of ESG strategies and development of policies.

As such, we conducted a series of stakeholder engagement for the purpose of collecting views on identification of materiality for the Group during the year. The major work included identification of a group of key stakeholders and consultation of key materiality. Findings were subsequently analysed to identify the materiality. To achieve a better independence, an independent consultant was commissioned to assist the Group to identify the stakeholders and conduct the materiality assessment.

It is recognised that representativeness of the stakeholder would affect the findings of the stakeholder engagement. We therefore plan to expand our scope of stakeholder engagement exercise next year, by means of increasing the stakeholders, for the purpose of getting a more comprehensive finding of the materiality.

3.4 Materiality Assessment

Views and opinions collected during the stakeholder engagement were analysed for the purpose of determining the materiality for the Group. To prioritise the materiality, stakeholders were asked to rate the importance of each environmental and social aspect.

Based on the materiality assessment, the areas identified to be material under environmental and social aspects of the Group are summarised as follows:

Environmental

Material Issues	Corresponding HKEx Aspects
Use of Electricity	Use of Resources
Use of Water	Use of Resources
Hazardous Waste	Emissions

Social

Material Issues	Corresponding HKEx Aspects
Health and Safety	Health and Safety
Child and Forced Labour	Labour Standards

As mentioned earlier, we plan to expand the scope of stakeholder engagement exercise next year to include another group of stakeholders in order to widen the representativeness of the materiality assessment.

4. Environment

4.1 Environmental Policy

The Group is committed to global environmental protection and the development of a low-carbon economy. We contribute to mitigate climate change issues by adopting environmental-friendly approaches in our business operation. The Group is committed to complying with all applicable environmental laws and regulations in locations where we conduct our businesses. We are committed to reducing our environmental impact through proper management.

4.2 Potential Environmental Impacts due to our Operations

Based on the identified materiality as shown above, in order to determine the potential improvement areas on environmental performance, an evaluation was done for the purpose of ascertaining the potential impacts and corresponding improvement strategies have been formulated as below:

Materiality	Potential Impact	Improvement Strategies
Use of Electricity	– Excessive use of electricity – Excessive greenhouse gas emission due to the excessive use of electricity	– Green factory initiative in Hefei – Energy consumption optimisation – Close monitoring of consumption data and perform regular data analysis
Use of Water	– Excessive use of water – Generation of wastewater – Environmental tax due to wastewater discharge (starting from year 2018)	– Water consumption optimisation (reduce, reuse and recycle where appropriate) – Wastewater treatment and effluent reuse – On-line and real-time effluent discharging monitoring
Hazardous Waste	– Generation, storage and disposal of hazardous waste	– Waste minimisation and elimination – Proper storage facility – Licensed waste contractor for waste collection, treatment and disposal

4.3 Use of Electricity

The Group's manufacturing business relies on consumption of electricity. Both factories in Hefei and Panyu purchase all the electricity needed, with supplementary in-house generators within the premises.

The Group will continue to optimise energy consumption through upgrading our facilities, monitoring relevant data and discussing with customers to improve existing operational practices. Here below are some highlights about our work done on electricity minimisation.

4.3.1 LEED Certification for Hefei Factory

In 2009, the Group successfully applied and obtained a Silver award for our Hefei factory which can be now classified as a green building.

During the course of the certification and subsequent operation of the building and facilities, we learned the importance of energy saving and realised the potential benefits of being an environmental friendly building.

4.3.2 Equipment and Facilities Upgrade

Electricity management opportunities have been kept identifying for all of the equipment, such as motors for sewing machines. This would reduce not only our operational cost but also the corresponding carbon emissions.

In fact, due to the upgrading of the facilities, occupational noise nuisance for some particular machines is also improved.

4.3.3 Water Curtain for Indoor Air Quality Control

Water curtains were installed at our factories in Hefei and Panyu for the purpose of improving air quality control (in particular of temperature during summer time).

The curtain uses water to cool down the air which is drawn from ambience and fed into the factory. The cooled air lowers the indoor temperature of the factory. This installation aims to replace a traditional chiller plant which is a high energy consumption device, and in the meantime, improves the working environment of the factory.

4.3.4 LED Lighting Installation

There are more than 20 production lines within the Hefei factory. Provision of lighting is essential in order to provide a suitable environment for people to work.

More than 90% of the lighting for the workstation has been replaced by LED lighting. In addition, provision of daylight control and dimming system are in place for some lighting installations. All these measures ensure a proper working environment (in term of lighting lux level) is provided and, in the meantime, minimise the use of electricity.

4.3.5 Solar Lighting Tube

Solar lighting tubes are installed at the factory ceiling. They are modern ecological and energy saving facilities that provide natural light in rooms. Sunlight comes into the tube through the dome installed on the roof, by means of mirror reflections, the light is transported through flexible tubing to the interior diffusers. Finally, light comes into the indoor environment of the factory and brightens the workstation.

They aim to provide another source of light on the top of artificial lighting (such as LED lights). This additional lighting offers a cost-free supply of light. In addition, the maintenance cost of the solar lighting tube is not significant. Besides, the ESG performance of the factory, in terms of zero carbon emissions, can be improved.

4.3.6 Green Roof

Several roofs of the factory buildings have been partially or completely covered with vegetation.

Green roofs serve several purposes for a building, such as reducing heat island effect in the surrounding area, reducing heat gains through roof, increasing indoor comfort in summer by reflecting and digesting heat from the roof surface, providing additional insulation in winter conditions and saving on energy consumption by reducing summer air conditioning costs.

4.3.7 Cooperation with Customers

In order to realise our ESG performance in terms of utility utilisation, consumption of water, energy, gas and steam are regularly monitored.

A dedicated team responsible for collection and analysis of the relevant data on a monthly basis has been set up. The data can be shared with our customers when necessary for discussion of our utility consumption performance. One of the most valuable outcomes is to establish a better supply chain relationship with our customers but in the meantime, reduce our costs on energy consumption.

4.3.8 Others

The following electricity management opportunities have also been implemented:

- All exterior lightings are off-grid solar sourced lightings;
- Green electricity is connected off-site using hydro sourced power plant (35% of electricity);
- Steam is harvested off-site from nearby resource; and
- Paving materials with high solar reflectance are used in the hardscape areas.

4.4 Water Resources

The Group is aware of the water resources consumption and wastewater discharge across our manufacturing processes.

A laundry plant, without bleaching and dyeing work, in Hefei factory is one of our significant water consumption and wastewater discharge sources. Based on the operational characteristics of the laundry plant, toxic substances are not contained in the effluent.

Wastewater generated are diverted to an in-house wastewater treatment plant for a treatment and disposal. Sedimentation and biological treatment processes are adopted to ensure the effluent comply with relevant discharge standards.

A dedicated team responsible for conducting operation and maintenance activities, including health and safety, of the wastewater treatment plant has been set up.

An on-line and real-time monitoring system has been installed to monitor the effluent quality. To the best of our knowledge, no violation of discharge standards was recorded.

There are posters around factory area to remind people about the minimisation of water usage and zero wastage. Apart from encouraging the behavioural changes, water saving devices are installed at some locations of the factory, e.g. dual flush for toilet, urinal with automatic sensor faucets, etc. In addition, rain water is collected from the green roof for cleaning and plant irrigation where appropriate.

4.5 Waste Management

3R principles (reduce, reuse and recycle) have been widely adopted throughout the whole Group operation. For inevitable waste, they are disposed of at landfill where appropriate. For hazardous waste including spent toxic chemicals, a licensed waste contractor is appointed for collection, treatment and disposal where applicable.

For products' packaging materials such as cardboard boxes and plastic bags, they are all supplied by our customers. We target to minimise the waste in order to accomplish our 3R principles.

4.6 Legal Compliance

During the year, we are not aware of any non-compliance with any relevant environmental regulatory requirements that may have a significant impact on the businesses of the Group.

5. Social

5.1 Social Policies

A series of social policies have been developed and embedded into the Group's documents. The policies apply to the following social aspects:

5.2 Potential Social Concerns due to our Operations

In accordance with the materiality assessment, in order to determine the potential improvement areas on social performance, an evaluation was done for the purpose of ascertaining the potential impacts and corresponding improvement strategies have been formulated as below:

Aspects	Potential Impact	Improvement Strategies
Recruitment	– Disappointed employees in the workplace due to weak employee engagement	– Equal opportunity and human rights on recruitment policy
Employment Benefit	– Disappointed employees in the workplace due to weak employee engagement	– Competitive compensation and benefits – Zero tolerance to child labour and forced overtime
Health and Safety	– Unsafe working environment	– Education and training on health and safety – Monitoring safety performance – Protective gear provided
Development and Training	– Unskilled work force and higher rate of injury	– Induction and on-the-job training provided

5.3 Recruitment

The Group strives to encourage a supportive, ethical and inclusive culture where our employees are treated with respect and dignity. Right from the beginning of their career in the Group, a stringent recruitment policy has been established to safeguard them from unethical discrimination and unjust treatment.

We promote fair competition and prohibit discrimination or harassment against any employee on their gender, age, marital status, religion, race, nationality, disability or any status protected by law.

Equal opportunities principles are applied in all employment policies, in particular to recruitment, training, career development and promotion of employees.

5.4 Employment Benefits

The Group is committed to providing its employees with an excellent working environment and constantly strives to retain employees by rewarding them for their contribution through a comprehensive benefits and incentive program.

We offer a compensation package that includes a base salary with comprehensive benefits, reviewed and adjusted regularly. In our production base in Hefei and Panyu, we provide our employees with rent free accommodation, dining facilities and outdoor fitness areas for employees to spend their leisure time.

To the best of the Group's knowledge, no material non-compliance of relevant laws and regulations of employment was noted during the year.

5.4.1 Competitive Salaries

We offer a better salary package to our employees compared with the statutory requirements stipulated by local government.

5.4.2 Rent Free Accommodation

There are two accommodation blocks in the Hefei factory that provide eligible staff with rent free accommodation, which includes single room, couple room and shared room which are available to eligible staff working in the factory.

5.5 Child and Forced Labour

The Group strictly complies with the government's relevant statutory requirement and we are not hiring any employees under the age of 16.

The Group firmly eradicates any forced labour. We protect the right of staff in terms of providing rest and leave days according to relevant government laws and regulations. Overtime and holiday pay are implemented according to local policies and our salary systems. The Group fully respects our staff's freedom of employment. If overtime working is required, workers will need to submit an application to their management for approval.

To the best the Group's knowledge, no non-compliance on child and forced labour was reported during the year.

5.6 Health and Safety

As a manufacturing enterprise, protecting the health and safety of our people is always the Group's priority. We strictly comply with relevant laws and regulations in respect of health and safety.

The Group is devoted to bringing our people a safe and healthy workplace by minimising their exposure to potential health and safety risks in the workplace. All of our safety equipment and measures are prepared in accordance with applicable laws and regulations to ensure their safety performances.

To the best of the Group's knowledge, no non-compliance or grievances on health and safety was reported during the year.

5.7 Others

5.7.1 Development and Training

The Group considers our employees as its most valuable assets and is committed to providing benefits for them. With regard to human resources training, a series of on-the-job training programs are put in place to promote the personal growth of employees.

We favour a people-oriented development model. The Group provides introductory orientation programs and continuous training to its employees. Topics covered include industry knowledge, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and standards of its staff.

5.7.2 Anti-corruption

The Group operates in various countries that are governed by their respective laws including anti-corruption.

The Group is committed to achieving the highest standards of openness, probity and accountability. In order to ensure that employees at all levels can conduct themselves with integrity, impartiality and honesty, the Group has devised a whistleblowing policy which provides reliable channels reporting suspected frauds or misconducts by all staff of the Group.

To the best of the Group's knowledge in the reporting period, no reported instances on corruption were noted.

5.7.3 Product Responsibility

The Group is committed to providing quality products to our customers. We strive for quality products to our customers through quality control system. The Group, together with its respective suppliers, has procedures in place in case of any technical, health, safety or other non-compliance issues in products it has supplied to its customers.

Active dialogue is maintained through questionnaire surveys with our customers for the service satisfaction and areas for improvement. We are also committed to protecting data privacy of our customers. Customers' data is managed in accordance with applicable regulatory requirements.

To the best of the Group's knowledge in the reporting period, no reported instances related to product responsibility were noted during the year.

5.7.4 Supply Chain Management

To ensure the quality and safety of the final products, the Group purchases most of the raw materials from suppliers designated by customers. Every raw material has to go through a series of detailed checking and testing before it can be used or shipped. We require all suppliers to comply with national and local laws and regulations regarding environmental protection, production safety, labour condition and human rights.

Besides, the Group encourages independent suppliers and business partners with environmental friendly practice in providing their design, services and products. Active dialogue is maintained with suppliers to provide feedback to customer requests on environmental-friendly practices in their design and products.

The Group has included environmental and social considerations in our supplier's selection procedures. The Group ensures that the contracting processes are fair and we try to influence our suppliers to reduce social and environmental impacts where practicable.

5.7.5 Social Investment

The Group cares for the community and encourages employees to actively get involved in ESG activities. We support initiatives that serve the needs and improve the quality of life of the socioeconomically disadvantaged with aim to foster social harmony in the communities we serve.

HKEx ESG Content Index

ESG Guide	Aspects	Descriptions	Section	Remark
Environment	A1. Emissions	Policies relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. Compliance with relevant laws and regulations that have a significant impact on the issuer.	4.2 and 4.5 4.6	
	A2. Use of Resources	Policies on the efficient use of resources, including energy, water and other raw materials.	4.3 and 4.4	
	A3. The Environment and Natural Resources	Policies on minimising the issuer's significant impact on the environment and natural resources.	–	This aspect is not regarded as material according to our materiality assessment.
Social	B1. Employment	Policies on employment and compliance with local laws and regulations that have a significant impact on the issuer on the following aspects: – Compensation and dismissal – Recruitment and promotion – Working hours and rest periods – Equal opportunity and anti-discrimination – Diversity – Other benefits and welfare	5.2, 5.3 and 5.4	
	B2. Health and Safety	Policies on providing a safe working environment and protecting employees from occupational hazards and compliance with relevant laws and regulations.	5.6	
	B3. Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	5.7.1	
	B4. Labour Standards	Policies and compliance with laws and regulations on preventing child and forced labour.	5.5	
	B5. Supply Chain Management	Policies on managing environmental and social risks of the supply chain.	5.7.4	
	B6. Product Responsibility	Policies and compliance with relevant laws and regulations on health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	5.7.3	
	B7. Anti-corruption	Policies and compliance with relevant laws and regulations relating to bribery, extortion, fraud and money laundering.	5.7.2	
	B8. Community Investment	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	5.7.5	

Directors' and Senior Management's Profiles

Directors

Executive Director

Mr. WANG Kin Chung, Peter, *BSc, MBA*, aged 63, became the Company's President and Chief Executive Officer in 1999 and was redesignated as the Chairman and Chief Executive Officer of the Company since 2001. He is also the Chairman of the Share Option Committee of the Company and a director of certain subsidiaries of the Company. Mr. Wang has over 30 years of experience in the garment industry and is responsible for the overall strategic planning and business development of the Company. Mr. Wang obtained a BSc degree in Industrial Engineering from Purdue University in Indiana, USA and an MBA degree from Boston University, USA. He is a non-executive director and a member of the audit committee of Johnson Electric Holdings Limited and the chairman and managing director of Hua Thai Manufacturing Public Company Limited (formerly listed on The Stock Exchange of Thailand).

Mr. Wang won the Young Industrialist Award of Hong Kong in 1998. In 2005, he received the Outstanding Industrial Engineer Award from the School of Industrial Engineering of Purdue University. He is a member of Anhui Provincial Committee of Chinese People's Political Consultative Conference, the honorary chairman of the Hong Kong Garment Manufacturers Association, a general committee member of the Textile Council of Hong Kong Limited, a director of The Federation of Hong Kong Garment Manufacturers and a committee vice chairman of The Anhui Fraternity Association (Hong Kong) Limited. Mr. Wang is a son of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company, and a brother of Ms. MAK WANG Wing Yee, Winnie and Dr. WANG Shui Chung, Patrick, Directors of the Company. He is a director of Silver Tree Holdings Inc. which is a substantial shareholder of the Company as disclosed in the "Substantial Shareholders" section of the Report of the Directors.

Non-Executive Directors

Ms. WANG KOO Yik Chun, aged 99, became Co-chairlady and Honorary Co-chairlady in 1999 and 2001 respectively and was then redesignated as the Honorary Chairlady of the Company since 2002. She is the founder of Hwa Fuh Manufacturing Company (Hong Kong) Limited and its subsidiaries. She is also the honorary chairman and a non-executive director of Johnson Electric Holdings Limited, a former director of Hua Thai Manufacturing Public Company Limited (formerly listed on The Stock Exchange of Thailand), and a director of certain subsidiaries of the Company. Ms. Koo is the mother of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, Ms. MAK WANG Wing Yee, Winnie and Dr. WANG Shui Chung, Patrick, Directors of the Company.

Ms. MAK WANG Wing Yee, Winnie, *BSc*, aged 70, obtained her BSc degree from Ohio University, USA and became a Non-Executive Director of the Company in April 1999. She is also a member of the Audit Committee, the Remuneration Committee and the Share Option Committee of the Company. Ms. Wang is a director of two subsidiaries of the Company. She is also the vice chairman of Johnson Electric Holdings Limited. Ms. Wang is a daughter of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company, and a sister of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, and Dr. WANG Shui Chung, Patrick, a Director of the Company.

Dr. WANG Shui Chung, Patrick, *JP, BSc, MSc,* aged 66, obtained his BSc and MSc degrees in Electrical Engineering and received an Honorary Doctorate of Engineering from Purdue University in Indiana, USA. He became a Non-Executive Director of the Company in April 1999 and is a director of a subsidiary of the Company. Dr. Wang is the chairman and chief executive of Johnson Electric Holdings Limited, and an independent non-executive director of VTech Holdings Limited. He is a member of the Hong Kong Sanatorium & Hospital's Clinical Governance Committee. Dr. Wang previously served as a non-executive director of The Hongkong and Shanghai Banking Corporation Limited, and the chairman and a director of the Hong Kong Applied Science and Technology Research Institute Company Limited. Dr. Wang is a son of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company, and a brother of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, and Ms. MAK WANG Wing Yee, Winnie, a Director of the Company.

Independent Non-Executive Directors

Mr. LO Kai Yiu, Anthony, aged 68, joined the Company in June 1998 as an Independent Non-Executive Director. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Lo is qualified as a chartered accountant with the Canadian Institute of Chartered Accountants and is a member of the Hong Kong Institute of Certified Public Accountants. In addition to over 8 years of professional accounting experience, he has over 30 years of experience in investment banking and other financial services. He is the chairman of Shanghai Century Capital Limited and serves as an independent non-executive director of a number of listed public companies, including Convenience Retail Asia Limited, Lam Soon (Hong Kong) Limited, Playmates Holdings Limited and The Taiwan Fund, Inc.

Mr. James Christopher KRALIK, aged 51, was appointed as an Independent Non-Executive Director of the Company in April 2002. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee of the Company. Mr. Kralik is the managing director of Linden Street Capital Limited, a privately held investment company focused on Greater China-based investment opportunities. He previously served as the chief executive officer of VTech Telecommunications Limited, built and led a Hong Kong-based group of media and entertainment businesses, and was a management consultant with McKinsey & Company, Inc. Mr. Kralik is a graduate of Harvard College and the Harvard Business School.

Mr. Peter TAN, aged 61, was appointed as an Independent Non-Executive Director and a member of the Remuneration Committee of the Company in January 2011. He is an independent non-executive director of The Sincere Company, Limited. Mr. Tan is currently chief executive officer of Stone Canyon Pte Ltd, an investment company. Prior to that, he was the chief executive officer of Knowledge Universe Pte Ltd, a leading global private education organisation with a network of more than 3,000 locations worldwide. Before joining Knowledge Universe in 2013, Mr. Tan has more than 17 years' experience in the fast food industry. Mr. Tan was the executive vice president and the chief executive officer of Asia Pacific division of Burger King Corporation up to 2012. Before joining Burger King Corporation in 2005, Mr. Tan had served McDonald's Corporation for 10 years and was the senior vice president and the president of its Greater China division, responsible for strategic growth of the business and management of all key functions in the region. Prior to that, Mr. Tan was the vice president of Citibank Singapore, Private Banking Group. He holds a BA degree in Accounting and Finance from the Washington State University, an MBA degree from the Kellogg School of Management at Northwestern University and was the chairman of the Kellogg Alumni Council (Asia).

Senior Management

Mr. Joshua Bruce PERLMAN, aged 47, joined the Group in 2003 and is the Managing Director of the Retail and Wholesale division of the Group's wholly-owned subsidiary, 338 Fashion Co. Limited. 338 Fashion Co. Limited is a licensee of Jack Wolfskin in the Hong Kong and Macau markets, and the owner of the HASKI brand. Mr. Perlman is also the President of our Men's Smart Casual Brands of the Group – C.P. Company and EFM (Engineered for Motion) in North America. He has over 20 years of experience in China working with renowned consumer lifestyle brands. A graduate of both Tulane University and the Johns Hopkins University Center for Chinese and American Studies in Nanjing, Mr. Perlman is a native of New York City, USA, and is fluent in Mandarin, Chinese.

Mr. DUAN Zijian, Jack, aged 50, President – Contract Manufacturing, joined the Group in 2016. Mr. Duan has previously worked with the Group in 2003 to 2007 as the General Manager of the Panyu factories. Prior to re-joining the Group, he worked as General Manager of Hanesbrands (Nanjing) Textile Co., Ltd. Mr. Duan has extensive operational and management experience in the garment industry. He holds a Master Degree of Science from China Aerospace Academy and a Master Degree in Business Administration from the joint program of Peking University and Fordham University, New York.

Ms. MA Jingyan, Jane, aged 44, Managing Director of the Contract Manufacturing Business Unit, joined the Group in 2001. Ms. Ma has over 15 years of experience in the garment industry primarily on the marketing, sales and product development side for both UK and USA markets. She holds a Master Degree in Business Administration from Fordham University, New York.

Ms. ZHANG Xiaofang, Phyllis, aged 43, Managing Director of the Contract Manufacturing Business Unit for Dress-up, is also responsible for third party fulfillment. Ms. Zhang joined the Group in 2002 and has over 15 years of management experience in the garment industry. She holds a Master Degree in Business Administration from Peking University.

Ms. SUN Lin, Sophie, aged 41, President of Cissonne, joined the Group in 2006. Ms. Sun was instrumental in the creation of Cissonne in 2014, the first ladies' premium brand of the Group. She is also the Director of Product Development and Central Sourcing of the Group. Ms. Sun holds a Master Degree in Business Administration from Fudan University, Shanghai.

Mr. Donrad DUNCAN, aged 54, Principal Designer and the founder of EFM (Engineered for Motion). EFM was established in 2014 as the first proprietary menswear brand of the Group. Mr. Duncan has presented consecutive collections at the CFDA New York Fashion Week: Men's, and received Fashion Group International's 2016 Rising Star Award for Menswear. He is one of the most influential sportswear designers in men's apparel, and the only designer ever granted access to the legendary garment and fabric engineer Massimo Osti's archive in Bologna, Italy. Prior to founding EFM, he served as Principal Designer of Victorinox/Swiss Army apparel, and later as founder, owner and designer of the Ma.Strum brand, establishing his credentials at the forefront of an elite group of innovators in fabric, design, form and construction.

Ms. AU King Lun, Paulina, aged 47, Chief Financial Officer, joined the Group in 2011. Prior to joining the Group, Ms. Au has over 15 years of experience in finance and accounting in companies listed in the USA and Hong Kong. In addition, she has over 5 years of professional accounting and auditing experience with one of the leading international accounting firms in Hong Kong. Ms. Au holds a Bachelor Degree in Accountancy from The City University of Hong Kong and a Master Degree in Applied Finance from Macquarie University, Australia. She is a member of the Hong Kong Institute of Certified Public Accountants.

Report of the Directors

The Board of Directors (the "Board") of Tristate Holdings Limited (the "Company") presents its report together with the audited financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2016.

Principal Activities and Analysis of Operations

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

An analysis of the Group's revenue and results for the year by segment is set out in Note 4 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss on page 42.

No interim dividend was paid for the six months ended 30 June 2016 (2015: Nil).

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

Business Review

The business review of the Group for the year ended 31 December 2016 is set out in the section headed "Management Discussion and Analysis" on pages 6 to 11 of this Annual Report.

Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2016 is set out on page 3.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 16 to the consolidated financial statements.

Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2016 are set out in Note 42 to the consolidated financial statements.

Associate

Particulars of the Group's interests in an associate are set out in Note 20 to the consolidated financial statements.

Share Capital

Details of the share capital of the Company are set out in Note 32 to the consolidated financial statements.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in Notes 33 and 39(b) to the consolidated financial statements respectively.

Distributable Reserves

As at 31 December 2016, the reserves of the Company amounted to HK$446,978,000 (2015: HK$447,053,000) and retained earnings amounted to HK$440,993,000 (2015: HK$341,846,000); of which HK$872,013,000 (2015: HK$772,866,000) were available for distribution to equity shareholders of the Company as calculated in accordance with the Bermuda Companies Act 1981.

Share Options

A new share option scheme (the "2016 Share Option Scheme") was approved and adopted by the shareholders of the Company at the annual general meeting of the Company held on 6 June 2016 (the "2016 AGM") for granting of share options to eligible persons to subscribe for shares of the Company. The termination of the share option scheme adopted by the Company on 2 April 2007 (the "2007 Share Option Scheme") was approved at the 2016 AGM.

Upon termination, no further share options will be granted under the 2007 Share Option Scheme. All outstanding share options granted under the 2007 Share Option Scheme will continue to be valid and exercisable in accordance with the terms of the 2007 Share Option Scheme.

During the year and as at the date of this report, no share options have been granted under the 2016 Share Option Scheme.

A. The 2007 Share Option Scheme

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

Purpose	:	To attract and motivate high quality employees and officers of the members of the Group, to provide the participants who have been granted options under the 2007 Share Option Scheme to subscribe for shares of the Company with the opportunity to acquire proprietary interests in the Company, to encourage participants to work towards achieving certain performance targets in order to enhance the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, and to retain participants who achieve such performance targets.
Participants	:	The employees and officers of any member (from time to time) of the Group including, without limitation, directors, senior vice presidents, factory general managers, vice presidents and other full-time employees of any member of the Group as determined by the Board from time to time.
Total number of shares available for issue and the percentage of the issued share capital that it represents as at the date of this report	:	The maximum number of shares which may be issued upon exercise of all options to be granted under the 2007 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of adoption of the 2007 Share Option Scheme. Immediately before the termination, the total number of shares available for issue under the 2007 Share Option Scheme was 26,873,525 shares, representing 9.89% of the issued share capital of the Company as at the date of this report.
Maximum entitlement of each participant	:	Not exceeding 1% of the shares of the Company in issue in any 12 months period.
Period within which the shares must be taken up under an option	:	The period within which the options must be exercised will be specified by the Board at the time of grant. This period must expire no later than ten years from the relevant date of grant.
Minimum period for which an option must be held before it can be exercised	:	At the time of grant of the options, the Board may specify any minimum period(s) for which an option must be held before it can be exercised. The 2007 Share Option Scheme does not contain any such minimum period.
Amount payable on acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	:	HK$1.00 (or its equivalent), to be paid within ten business days from the date on which the letter containing the offer is issued to that participant.
Basis of determining the exercise price	:	The subscription price for the shares which are the subject of the options shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheet issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price will be determined by the Board at the time the option is offered to the participant.
Remaining life of the 2007 Share Option Scheme	:	The 2007 Share Option Scheme which originally would expire on 2 April 2017, being the tenth anniversary of the date of its adoption, was terminated at the 2016 AGM.

Movement in the share options granted under the 2007 Share Option Scheme during the year and outstanding as at 31 December 2016 were as follows:

		Number of share options					
Date of grant	**Participant**	**At 01/01/2016**	**Granted during the year**	**Lapsed during the year**	**At 31/12/2016**	**Exercise price per share**	**Exercisable period**
13/06/2011	Employees (in aggregate)	105,000	–	(105,000)	**–**	HK$4.01	13/06/2011 – 12/06/2016
		105,000	–	(105,000)	**–**	HK$4.01	13/06/2012 – 12/06/2016
		105,000	–	(105,000)	**–**	HK$4.01	13/06/2013 – 12/06/2016
		105,000	–	(105,000)	**–**	HK$4.01	13/06/2014 – 12/06/2016
18/06/2012	Employees (in aggregate)	80,000	–	–	**80,000**	HK$5.06	18/06/2012 – 17/06/2017
		80,000	–	–	**80,000**	HK$5.06	18/06/2013 – 17/06/2017
		80,000	–	–	**80,000**	HK$5.06	18/06/2014 – 17/06/2017
		80,000	–	–	**80,000**	HK$5.06	18/06/2015 – 17/06/2017
03/06/2013	Employees (in aggregate)	104,000	–	–	**104,000**	HK$3.92	03/06/2013 – 02/06/2018
		104,000	–	–	**104,000**	HK$3.92	03/06/2014 – 02/06/2018
		104,000	–	–	**104,000**	HK$3.92	03/06/2015 – 02/06/2018
		104,000	–	–	**104,000**	HK$3.92	03/06/2016 – 02/06/2018
09/06/2014	Employees (in aggregate)	106,000	–	–	**106,000**	HK$3.10	09/06/2014 – 08/06/2019
		106,000	–	–	**106,000**	HK$3.10	09/06/2015 – 08/06/2019
		106,000	–	–	**106,000**	HK$3.10	09/06/2016 – 08/06/2019
		106,000	–	–	**106,000**	HK$3.10	09/06/2017 – 08/06/2019
08/06/2015	Employees (in aggregate)	135,000	–	–	**135,000**	HK$2.97	08/06/2015 – 07/06/2020
		135,000	–	–	**135,000**	HK$2.97	08/06/2016 – 07/06/2020
		135,000	–	–	**135,000**	HK$2.97	08/06/2017 – 07/06/2020
		135,000	–	–	**135,000**	HK$2.97	08/06/2018 – 07/06/2020
09/05/2016 *(Notes 2 & 3)*	Employees (in aggregate)	–	141,000	–	**141,000**	HK$2.28	09/05/2016 – 08/05/2021
		–	141,000	–	**141,000**	HK$2.28	09/05/2017 – 08/05/2021
		–	141,000	–	**141,000**	HK$2.28	09/05/2018 – 08/05/2021
		–	141,000	–	**141,000**	HK$2.28	09/05/2019 – 08/05/2021
	Total	2,120,000	564,000	(420,000)	**2,264,000**		

Notes:

1. The above options vest in four equal tranches over a period of three years from the relevant date of grant.

2. The Company received a total consideration of HK$3.00 from the grantees for the options granted during the year.

3. The closing price of the shares of the Company on 6 May 2016, i.e. the business day immediately before the date on which the options were granted during the year, as quoted on the Stock Exchange, was HK$2.28.

4. No options had been exercised or cancelled during the year.

Other details of the share options granted under the 2007 Share Option Scheme are set out in Note 34 to the consolidated financial statements.

B. The 2016 Share Option Scheme

The principal terms of the 2016 Share Option Scheme are summarised below:

Purpose	:	To provide the participants who have been granted options under the 2016 Share Option Scheme with the opportunity to acquire proprietary interests in the Company, to encourage participants to work towards achieving the relevant performance targets in order to enhance the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, and to retain participants who achieve such performance targets.
Participants	:	The directors, officers and employees of any member of the Group as determined by the Board from time to time.
Total number of shares available for issue and the percentage of the issued share capital that it represents as at the date of this report	:	The maximum number of shares which may be issued upon exercise of all options to be granted under the 2016 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at 6 June 2016, the date of 2016 AGM approving and adopting the 2016 Share Option Scheme, which is 27,160,725 shares, representing 10% of the issued share capital of the Company as at the date of this report.
Maximum entitlement of each participant	:	Not exceeding 1% of the shares of the Company in issue in any 12 months period.
Period within which the shares must be taken up under an option	:	The period within which the options must be exercised will be specified by the Board at the time of grant. This period must expire no later than ten years from the relevant date of grant.
Minimum period for which an option must be held before it can be exercised	:	At the time of grant of the options, the Board may specify any minimum period(s) for which an option must be held before it can be exercised. The 2016 Share Option Scheme does not contain any such minimum period.
Amount payable on acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	:	HK$1.00 (or its equivalent), to be paid within ten business days from the date on which the letter containing the offer is issued to that participant.
Basis of determining the exercise price	:	The subscription price for the shares shall be such price determined by the Board at its absolute discretion and notified to the participant in the offer and shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant.
Remaining life of the 2016 Share Option Scheme	:	No options may be granted under the 2016 Share Option Scheme on or after the date of the tenth anniversary of the adoption of the 2016 Share Option Scheme.

Bank Borrowings

Details of the bank borrowings of the Group are set out in Note 28 to the consolidated financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$126,000 (2015: HK$171,000).

Directors

The directors of the Company (the "Directors") who held office during the year or during the period beginning with the end of the year and ending on the date of this report are:

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

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

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

In accordance with Bye-Laws 85 and 86 of the Company's Bye-Laws, Ms. WANG KOO Yik Chun and Mr. Peter TAN will retire by rotation and, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting of the Company to be held on Monday, 5 June 2017 (the "2017 AGM").

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

Biographical Details of Directors and Senior Management

Brief biographical details of the Directors and the Senior Management of the Group as at the date of this report are set out on pages 28 to 29.

Directors' Interests in Securities

As at 31 December 2016, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 of the Listing Rules, were as follows:

Interests in shares of the Company

		Number of shares held			
Name of Director	**Long/short position**	**Through spouse or minor children**	**Through controlled corporation(s)**	**Total**	**Approximate percentage of issued share capital**
Mr. WANG Kin Chung, Peter	Long position	3,212,000 *(Note 1)*	182,442,000 *(Note 2)*	185,654,000	68.35%

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

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

Notes:

1. 3,212,000 shares were beneficially owned by Ms. Daisy TING, the spouse of Mr. WANG Kin Chung, Peter.

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

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

Save as disclosed above, as at 31 December 2016, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Stock Exchange pursuant to the Model Code.

Arrangement to Acquire Shares or Debentures

Save as disclosed in the "Share Options" section in this report and in Note 34 to the consolidated financial statements, at no time during the year or at the end of the year was the Company, its subsidiaries, its holding company or the subsidiaries of its holding company, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Equity-Linked Agreements

Save as disclosed in the "Share Options" section in this report and in Note 34 to the consolidated financial statements, at no time during the year or at the end of the year was the Company a party to any equity-linked agreements.

Directors' Service Contracts

None of the Directors 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).

Interests of Directors and Controlling Shareholders in Transactions, Arrangements or Contracts of Significance

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

Directors' Interests in Competing Businesses

During the year ended 31 December 2016, none of the Directors had any interest in business apart from the Group's businesses which competed, or was likely to compete, either directly or indirectly, with the Group's businesses under Rule 8.10 of the Listing Rules.

Substantial Shareholders

As at 31 December 2016, the following persons (other than the Directors or the chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register kept by the Company pursuant to Section 336 of the SFO:

		Number of shares held			
Name of shareholder	**Long/short position**	**Directly beneficially owned**	**Through spouse or minor children**	**Total**	**Approximate percentage of issued share capital**
Ms. Daisy TING	Long position	3,212,000	182,442,000 *(Note)*	185,654,000	68.35%
Silver Tree Holdings Inc.	Long position	182,442,000 *(Note)*	–	182,442,000	67.17%

Note:

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

Save as disclosed above, as at 31 December 2016, no other person (other than a Director or the chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

Emolument Policy

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

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

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

Details of the emoluments of the Directors for the year ended 31 December 2016 are set out in Note 14 to the consolidated financial statements.

Permitted Indemnity Provision

Pursuant to Bye-Law 145 of the Company's Bye-Laws, the Directors shall be indemnified out of the assets of the Company from liabilities which they may incur by reason of the execution of their duties, unless such indemnification provision is avoided by any provisions of the applicable laws of Bermuda.

The Company has arranged directors' and officers' liability insurance during the year.

Retirement Benefit Schemes

Details of the retirement benefit schemes of the Group are set out in Note 29 to the consolidated financial statements.

Management Contract

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

Major Customers and Suppliers

The percentage of revenue from sales of goods attributable to the Group's largest customer and the five largest customers combined were 17% and 54%, respectively.

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

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

Continuing Connected Transaction

On 24 February 2015, Gold Flower Limited ("Gold Flower"), a wholly-owned subsidiary of the Company, as tenant, entered into a tenancy agreement (the "Tenancy Agreement") with TDB Company Limited ("TDB"), as landlord, for the leasing of the premises at Ground Floor, 2nd to 11th Floors, and a portion of 1st Floor, Tak Dah Industrial Building, 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong (the "Premises") for a term of two years from 1 April 2015 to 31 March 2017.

On 30 April 2015, Gold Flower and TDB entered into a supplemental tenancy agreement (the "Supplemental Tenancy Agreement") whereby the parties agreed to reduce the rented space of the Premises and the monthly rent was reduced proportionately with effect from 1 May 2015 with all other terms and conditions of the Tenancy Agreement remaining unchanged.

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

Details of the Tenancy Agreement (as amended by the Supplemental Tenancy Agreement) were as follows:

Term	:	Two years from 1 April 2015 to 31 March 2017
Monthly rent	:	HK$717,000 for the period from 1 April 2015 to 30 April 2015 (pursuant to the Tenancy Agreement) HK$693,000 for the period from 1 May 2015 to 31 March 2017 (pursuant to the Supplemental Tenancy Agreement) (excluding management fees, government rates and government rent)
Use of the Premises	:	As factory, storage and ancillary office by the Company and certain of its subsidiaries

The annual rent (the "Annual Cap") paid or payable by Gold Flower under the Tenancy Agreement (as amended by the Supplemental Tenancy Agreement) for each of the three financial years ending 31 December 2017 was as follows:

Term	Annual Cap *HK$*
1 April 2015 to 31 December 2015	6,261,000
1 January 2016 to 31 December 2016	8,316,000
1 January 2017 to 31 March 2017	2,079,000

The terms of the Tenancy Agreement were arrived at after arm's length negotiations between Gold Flower and TDB and on the basis of the valuation made by an independent property valuer which opined that the terms (including the rent) were fair and reasonable by reference to comparable rental transactions and offerings as available in the market with similar age, size, use and attributes.

Further details of the Continuing Connected Transaction were set out in the announcement of the Company dated 24 February 2015.

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

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

(ii) on normal commercial terms; and

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

The Company's auditor was engaged to report on the Continuing Connected Transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing the auditor's findings and conclusion in respect of the Continuing Connected Transaction disclosed on page 36 of this Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Related Party Transactions

Details of the related party transactions of the Group are set out in Note 37 to the consolidated financial statements.

The tenancy agreement under Note 37(a) constituted a continuing connected transaction for the Company under the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The cash advance under Note 37(b)(ii) constituted a connected transaction but was exempt from the disclosure requirements under the Listing Rules.

The remaining related party transactions under Note 37(b)(i) were not connected transactions under the Listing Rules.

Pre-Emptive Rights

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

Purchase, Sale or Redemption of Shares

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

Public Float

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

Corporate Governance Code

For the year ended 31 December 2016, the Company has complied with all the Code Provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules, except for the deviation from Code Provisions A.2.1, A.5 and A.6.7.

Considered reasons for the deviation from Code Provisions A.2.1, A.5 and A.6.7 as well as further information of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 12 to 19.

Changes in Directors' Biographical Details

Changes in Directors' biographical details since the date of the Company's interim report for the six months ended 30 June 2016 issued in September 2016 are set out below:

Dr. WANG Shui Chung, Patrick

New appointment
– Member of the Hong Kong Sanatorium & Hospital's Clinical Governance Committee

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

Auditor

At the conclusion of the annual general meeting of the Company held on 8 June 2015, PricewaterhouseCoopers retired as auditor of the Company upon expiration of its term of office. KPMG was then appointed as auditor of the Company.

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

On behalf of the Board

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Hong Kong, 27 March 2017

KPMG

Independent Auditor's Report to the Shareholders of Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Tristate Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 42 to 82, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessment of potential impairment of property, plant and equipment ("PP&E"), leasehold land and land use rights

Refer to Notes 3(b), 16 and 17 to the consolidated financial statements and the accounting policies in Notes 2(e), 2(f) and 2(t).

The Key Audit Matter

In view of the loss sustained by the Group for the year ended 31 December 2016, management considered that indicators of potential impairment of PP&E, leasehold land and land use rights existed as at 31 December 2016.

The Group's PP&E, leasehold land and land use rights mainly comprise assets used in the Group's garment manufacturing business and assets treated by the Group as corporate assets.

In assessing whether impairment existed at the reporting date, management determined the recoverable amounts of the smallest cash-generating units ("CGUs") to which these assets were allocated. The recoverable amount of a CGU is the greater of its value in use and the fair value less costs of disposal of the related assets.

In order to determine the recoverable amounts, management prepared discounted cash flow forecasts and engaged independent external valuers to perform valuations of the buildings, leasehold land and land use rights.

How the matter was addressed in our audit

Our audit procedures to assess the potential impairment of PP&E, leasehold land and land use rights included the following:

- assessing and challenging the Group's impairment assessment models, which included evaluating the indicators of impairment and the allocation of assets to CGUs and assessing whether the impairment assessment models were prepared in accordance with the requirements of the prevailing accounting standards;
- obtaining and inspecting the valuation reports prepared by the independent external valuers engaged by the Group and assessing the independent external valuers' qualifications, experience and expertise in the assets being valued and considering their objectivity and independence;
- with the assistance of our internal property valuation specialists, discussing with the independent external valuers and challenging their valuation methodology and the key estimates and assumptions adopted in their valuations, which included property-specific adjustment factors and the choice of market comparable transactions, taking into consideration of comparability and other market factors;

Key Audit Matters (Continued)

Assessment of potential impairment of property, plant and equipment ("PP&E"), leasehold land and land use rights (Continued)

The Key Audit Matter (Continued)

The preparation of discounted cash flow forecasts involves significant management judgement, in particular in relation to the forecasts of future revenue, future margins, future cost growth rates and the discount rates applied.

The valuations prepared by the independent external valuers also involve significant judgement, particularly in respect of property-specific adjustment factors and the choice of market comparable transactions.

We have identified the potential impairment of PP&E, leasehold land and land use rights as a key audit matter because of the potential significance of any impairment charge to the results of the Group for the year and because forecasting future cash flows and valuing the Group's buildings, leasehold land and land use rights can be inherently subjective and require significant judgement and estimation which increase the risk of error or potential management bias.

How the matter was addressed in our audit (Continued)

- challenging the key assumptions adopted by management in their preparation of the discounted cash flow forecasts and comparing the significant inputs, such as future revenue, future margins and future cost growth rates with the historical performance of the relevant CGUs;

- comparing the key assumptions included in the discounted cash flow forecasts for the prior year with the current year's performance to assess the reliability of management's forecasting process and making enquiries of management as to the reasons for any significant variations identified;

- engaging our internal valuation specialists to assist us in evaluating whether the discount rates used in the cash flow forecasts were within the range adopted by other companies in the same industry; and

- performing a sensitivity analysis for both the discount rates and cash flows and considering the resulting impact on the impairment charge for the year and whether there were any indicators of management bias.

Assessment of potential impairment of a trademark

Refer to Notes 3(b) and 18 to the consolidated financial statements and the accounting policies in Notes 2(g)(iii) and 2(t).

The Key Audit Matter

The carrying value of the Group's trademark as at 31 December 2016 was HK$160 million, which represented the consideration paid for a newly acquired brand, C.P. Company, in late 2015. The useful life of the trademark is considered to be indefinite.

Management performs an annual impairment assessment of the trademark by comparing the carrying value of the trademark with its estimated value in use, which is calculated using a discounted cash flow forecast, to determine if any impairment is necessary at the reporting date.

We have identified the potential impairment of the trademark as a key audit matter because the impairment assessment prepared by management of the Group is complex and contains certain judgemental assumptions, particularly in respect of the long term growth rate, the terminal growth rate and the discount rate applied and because the determination of such assumptions is inherently uncertain and could contain management bias.

How the matter was addressed in our audit

Our audit procedures to assess the potential impairment of the trademark included the following:

- comparing the revenue and operating costs included in discounted cash flow forecast prepared in the prior year with the current year's performance to assess how accurate the prior year's discounted cash flow forecast was and making enquiries of management as to the reasons for any significant variations identified;

- reviewing the impairment methodology adopted by management in determining the recoverable amount of the trademark with reference to the requirements of the prevailing accounting standards;

- engaging our internal valuation specialists to assist us in assessing whether the key assumptions adopted in the discounted cash flow forecast, which included the long term growth rate, the terminal growth rate, the operating margin and the discount rate, were comparable with those of companies in the same industry and external market data; and

- performing a sensitivity analysis of the key assumptions adopted in the discounted cash flow forecast prepared by management and assessing the impact of changes in the key assumptions to the conclusion reached in the impairment assessment and whether there were any indicators of management bias.

Information other than the Consolidated Financial Statements and Auditor's Report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than 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 the Directors for the Consolidated Financial Statements

The directors 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.

The directors are assisted by the Audit Committee in discharging their responsibilities 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. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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.

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

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

From the matters communicated with the Audit Committee, 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 Ms. HUI Sau Yee, Jenny.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

27 March 2017

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Revenue	4	**2,253,655**	2,515,738
Cost of sales		**(1,724,106)**	(1,934,316)
Gross profit		**529,549**	581,422
Other income and other gains	5	**87,777**	188,021
Selling and distribution expenses		**(174,103)**	(227,265)
General and administrative expenses		**(506,425)**	(541,363)
Restructuring costs	6	**–**	(15,675)
Loss from operations	7	**(63,202)**	(14,860)
Finance income	8	**7,217**	13,953
Finance costs	8	**(5,942)**	(8,510)
Loss before tax		**(61,927)**	(9,417)
Income tax expense	9	**(24,684)**	(36,274)
Loss for the year		**(86,611)**	(45,691)
Attributable to:			
Equity shareholders of the Company		**(84,091)**	(45,669)
Non-controlling interests		**(2,520)**	(22)
Loss for the year		**(86,611)**	(45,691)
Loss per share attributable to equity shareholders of the Company:			
Basic	12	**HK$(0.31)**	HK$(0.17)
Diluted	12	**HK$(0.31)**	HK$(0.17)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
Loss for the year	**(86,611)**	(45,691)
Other comprehensive income, net of nil tax unless specified:		
Items that may be reclassified subsequently to profit or loss		
Fair value losses on cash flow hedges:		
Losses arising during the year	**(24,912)**	(37,253)
Transferred to and included in the following line items in the consolidated statement of profit or loss:		
Cost of sales	**9,886**	4,185
General and administrative expenses	**2,487**	3,265
Exchange difference on translation of financial statements of overseas subsidiaries:		
Losses arising during the year	**(48,603)**	(80,634)
Reclassification adjustment for translation reserve transferred to consolidated statement of profit or loss upon liquidation of a subsidiary	**–**	838
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans and long service payment liabilities	**2,044**	(1,429)
Income tax effect	**(515)**	720
Other comprehensive income for the year	**(59,613)**	(110,308)
Total comprehensive income for the year	**(146,224)**	(155,999)
Attributable to:		
Equity shareholders of the Company	**(143,704)**	(155,977)
Non-controlling interests	**(2,520)**	(22)
Total comprehensive income for the year	**(146,224)**	(155,999)

The notes on pages 46 to 82 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	As at 31 December 2016 HK$'000	As at 31 December 2015 HK$'000
Non-Current Assets			
Property, plant and equipment	16	**332,149**	402,893
Leasehold land and land use rights	17	**130,863**	143,356
Intangible assets	18	**189,527**	185,822
Other long-term assets	19	**10,809**	20,629
Prepayments and other receivables	24	**–**	30,452
Deferred tax assets	31	**5,782**	29,874
Defined benefit plan assets	29	**7,735**	8,043
Interest in an associate	20	**–**	–
		676,865	821,069
Current Assets			
Inventories	21	**242,527**	273,804
Accounts receivable and bills receivable	22	**278,451**	314,590
Forward foreign exchange contracts	23	**316**	–
Prepayments and other receivables	24	**155,379**	146,631
Cash and bank balances	25	**523,241**	666,134
		1,199,914	1,401,159
Current Liabilities			
Accounts payable and bills payable	26	**88,129**	92,830
Accruals and other payables	27	**210,848**	276,932
Forward foreign exchange contracts	23	**19,629**	13,917
Current tax liabilities		**10,422**	34,505
Bank borrowings	28	**198,905**	325,294
		527,933	743,478
Net Current Assets		**671,981**	657,681
Total Assets Less Current Liabilities		**1,348,846**	1,478,750

	Note	As at 31 December 2016 HK$'000	As at 31 December 2015 HK$'000
Non-Current Liabilities			
Retirement benefits and other post retirement obligations	29	**19,812**	21,416
License fees payable	30	**24,938**	–
Deferred tax liabilities	31	**31,434**	45,942
Forward foreign exchange contracts	23	**36,689**	29,546
		112,873	96,904
Net Assets		**1,235,973**	1,381,846
Capital and Reserves			
Share capital	32	**27,161**	27,161
Reserves	33	**1,210,960**	1,354,371
Total equity attributable to equity shareholders of the Company		**1,238,121**	1,381,532
Non-controlling interests		**(2,148)**	314
Total Equity		**1,235,973**	1,381,846

Approved and authorised for issue by the Board of Directors on 27 March 2017.

WANG Kin Chung, Peter
Director

MAK WANG Wing Yee, Winnie
Director

The notes on pages 46 to 82 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to equity shareholders of the Company				
	Share capital *HK$'000*	**Reserves** *HK$'000*	**Total** *HK$'000*	**Non-controlling interests** *HK$'000*	**Total equity** *HK$'000*
As at 1 January 2016	**27,161**	**1,354,371**	**1,381,532**	**314**	**1,381,846**
Loss for the year	**–**	**(84,091)**	**(84,091)**	**(2,520)**	**(86,611)**
Other comprehensive income, net of tax	**–**	**(59,613)**	**(59,613)**	**–**	**(59,613)**
Total comprehensive income	**–**	**(143,704)**	**(143,704)**	**(2,520)**	**(146,224)**
Share option scheme – value of employee services	**–**	**417**	**417**	**–**	**417**
Non-controlling interests arising from acquisition of a subsidiary	**–**	**–**	**–**	**(62)**	**(62)**
Acquisition of non-controlling interest	**–**	**(124)**	**(124)**	**120**	**(4)**
As at 31 December 2016	**27,161**	**1,210,960**	**1,238,121**	**(2,148)**	**1,235,973**

	Attributable to equity shareholders of the Company				
	Share capital *HK$'000*	Reserves *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
As at 1 January 2015	27,119	1,525,516	1,552,635	336	1,552,971
Loss for the year	–	(45,669)	(45,669)	(22)	(45,691)
Other comprehensive income, net of tax	–	(110,308)	(110,308)	–	(110,308)
Total comprehensive income	–	(155,977)	(155,977)	(22)	(155,999)
Share option scheme – value of employee services	–	354	354	–	354
Issue of shares pursuant to exercise of share options	42	749	791	–	791
Dividends paid to equity shareholders of the Company in respect of the previous financial year	–	(16,271)	(16,271)	–	(16,271)
As at 31 December 2015	27,161	1,354,371	1,381,532	314	1,381,846

The notes on pages 46 to 82 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Operating activities			
Cash generated from operations	38	**68,054**	196,433
Income tax paid		**(35,811)**	(61,609)
Income tax refunded		**348**	10
Net cash generated from operating activities		**32,591**	134,834
Investing activities			
Interest received		**5,302**	13,953
Payment for the purchase of property, plant and equipment		**(29,598)**	(22,116)
Payment for the purchase of intangible assets		**(436)**	(165,950)
Proceeds from disposals of property, plant and equipment		**815**	1,271
Proceeds received from disposal of a subsidiary in 2014		**–**	157,620
Decrease/(increase) in short-term bank deposits, with maturities over 3 months		**86,423**	(2,095)
Decrease in bank structured deposits		**1,853**	36,038
Acquisition of a subsidiary		**(5,327)**	–
Acquisition of non-controlling interests		**(4)**	–
Net cash generated from investing activities		**59,028**	18,721
Financing activities			
Interest paid		**(5,450)**	(7,024)
Proceeds from new bank borrowings		**1,280,458**	1,612,135
Repayment of bank borrowings		**(1,409,034)**	(1,730,641)
Proceeds from shares issued upon exercise of share options		**–**	791
Dividends paid to equity shareholders of the Company		**–**	(16,271)
Net cash used in financing activities		**(134,026)**	(141,010)
Net (decrease)/increase in cash and cash equivalents		**(42,407)**	12,545
Cash and cash equivalents at beginning of the year	25	**429,792**	453,159
Effect on foreign exchange rate changes		**(12,210)**	(35,912)
Cash and cash equivalents at end of the year	25	**375,175**	429,792

The notes on pages 46 to 82 form part of these financial statements.

1. General Information

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

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

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

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors of the Company (the "Board") on 27 March 2017.

2. Significant Accounting Policies

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

(a) Statement of compliance and basis of preparation of the financial statements

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. Significant accounting policies adopted by the Group are set out below.

The consolidated financial statements for the year ended 31 December 2016 comprise the Group and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the derivative financial instruments are stated at their fair values (see Note 2(l)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) Consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

2. Significant Accounting Policies (Continued)

(b) Consolidation (Continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(k)) or, when appropriate, the cost on initial recognition of an investment in an associate (see Note 2(c)) or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(t)).

(c) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(t)). Any acquisition-date excess over cost, the Group's share of the post-acquisition post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(k)).

(d) Foreign currency translation

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

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income (see Note 2(l)).

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(e) Property, plant and equipment

Interests in freehold land are stated at historical cost less impairment loss (see Note 2(t)) and not depreciated. All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses (see Note 2(t)). Historical costs include expenditures that are directly attributable to the acquisition of the items.

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

2. Significant Accounting Policies (Continued)

(e) Property, plant and equipment (Continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives, as follows:

Buildings	2% – 10%
Plant and machinery	10% – 33%
Leasehold improvements, furniture, fixtures and equipment	4% – 33%
Motor vehicles	14% – 20%

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(f) Leasehold land and land use rights

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

When the interests are classified as operating leases, the premiums paid to acquire leasehold land and land use rights are recorded as prepayment for operating lease, and are amortised on a straight-line basis over the period of the leases and land use rights of 10 to 50 years. Where there is impairment, the impairment is expensed immediately in the consolidated statement of profit or loss.

When the interests are classified as finance leases and held for own use, the land interest is accounted for as property, plant and equipment.

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over (ii) the net fair value of the acquiree's identified assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU"), or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(t)).

On disposal of a CGU during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(ii) License rights and service right/License fees payable

License rights on branded products and service right are stated at cost less accumulated amortisation and impairment losses (see Note 2(t)). License rights and service right are initially measured as the fair value of the consideration given for the recognition of the license rights and service right at the time of their inception. The consideration given is determined based on the capitalisation of the minimum license fee payments in accordance with the license agreements.

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

(iii) Trademarks

Trademarks that are acquired by the Group are stated at cost less impairment losses (see Note 2(t)). Trademarks are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite useful lives. Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives with both the period and method of amortisation reviewed annually.

(iv) Customer relationship

Customer relationship is stated at cost less accumulated amortisation and impairment losses (see Note 2(t)). Amortisation of customer relationship is charged to profit or loss on a straight-line basis over the estimated useful life of 2 years, with both the period and method of amortisation reviewed annually.

2. Significant Accounting Policies (Continued)

(h) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using specific identification method or first-in, first-out cost formula for inventories of garment manufacturing segment and the weighted average cost formula for inventories of branded product distribution, retail and trading segment. Cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) Accounts receivable and bills receivable

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

Accounts receivable and bills receivable are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 2(u)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(k) Financial assets

The Group classifies its financial assets in the following categories: (i) financial assets at fair value through profit or loss and (ii) loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Regular way purchases and sales of financial assets are recognised on the settlement date – the date on which the Group makes payment to purchase or sell the assets.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred all risks and rewards of ownership. Management determines the classification of its financial assets on initial recognition and re-evaluates this designation at the end of each reporting period.

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

Financial assets designated at fair value through profit or loss at inception are acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this sub-category are classified as current assets if they are expected to be realised within 12 months; otherwise, they are classified as non-current assets.

Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated statement of profit or loss. At the end of each reporting period the fair value is remeasured with any resultant gain or loss being recognised in profit or loss.

Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statement of profit or loss as part of other income when the Group's right to receive payments is established.

(ii) Loans and receivables

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

Loans and receivables are initially recognised at fair value plus attributable transaction costs and subsequently stated at amortised cost using the effective interest method, less impairment losses (Note 2(u)). Interest on loans and receivables calculated using the effective interest method is recognised in the consolidated statement of profit or loss as part of finance income.

2. Significant Accounting Policies (Continued)

(l) Derivative financial instruments and hedging activities

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(ii) Hedge of net investments in foreign operations

The portion of the gain or loss on remeasurement to fair value of an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised in other comprehensive income and accumulated separately in equity in the exchange reserve until the disposal of the foreign operation, at which time the cumulative gain or loss is reclassified from equity to profit or loss. The ineffective portion is recognised immediately in profit or loss.

(m) Accounts and other payables

Accounts payable and bills payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable and bills payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities.

Accounts and other payable are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. When time value of money is material, provisions are stated at present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefit is remote.

(o) Employee benefits

(i) Short term employee benefits and contribution to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contribution to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by the employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

2. Significant Accounting Policies (Continued)

(o) Employee benefits (Continued)

(ii) Defined benefit retirement plan obligations (Continued)

Service cost and net interest expense (income) on the net defined benefit liability (asset) are recognised in profit or loss in employee benefit expense. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

(iii) Share-based compensation

The Group operates a share-based compensation plan, under which the entity receives services from employees as consideration for share options of the Company.

The fair value of share options granted to employees is recognised as an expense with a corresponding increase in share option reserve within equity. The fair value is measured at grant date using the Trinomial valuation model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

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

(iv) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

2. Significant Accounting Policies (Continued)

(p) Income tax (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Interest-bearing borrowings and borrowing costs

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value is recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

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

Borrowing costs are expensed in the period in which they are incurred.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after reduction of any trade discounts.

(ii) Service income

Service fees are recognised when the related services are provided. Service fees exclude value added tax or other sales taxes.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(s) Operating lease charge

Leases which do not transfer substantially all the risks and rewards of ownership of assets to the Group are classified as operating leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2. Significant Accounting Policies (Continued)

(t) Impairment of investments in subsidiaries, investment in an associate and non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- investments in subsidiaries in the Company's statement of financial position;
- investment in an associate;
- property, plant and equipment;
- intangible assets; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a CGU).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(u) Impairment of receivables

Current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is measured as 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 (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of accounts receivable and bills receivable whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against accounts receivable and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(v) Dividend distribution

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

2. Significant Accounting Policies (Continued)

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the chief operating decision makers for the purposes of allocating resources to, and assessing the performance of the operating segments. The chief operating decision makers have been identified collectively as the Chief Executive Officer and the Senior Management who make strategic decisions.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(x) Share capital

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

(y) Financial guarantees

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

The Group does not recognise liabilities for financial guarantees at inception, but performs a liability adequacy test at the end of each reporting period by comparing its net liability regarding the financial guarantee with the amount that would be required if the financial guarantee were to result in a present legal or constructive obligation. If the liability is less than the amount of the present legal or constructive obligation, the entire difference is recognised in the consolidated statement of profit or loss immediately.

(z) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. Critical Accounting Estimates and Judgement

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

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

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

3. Critical Accounting Estimates and Judgement (Continued)

(b) Estimated impairment of non-financial assets, including goodwill and trademarks

The Group assesses whether non-financial assets including goodwill and trademarks have suffered any impairment in accordance with the accounting policy stated in Note 2(t). The recoverable amounts of non-financial assets including goodwill and trademarks have been determined based on the greater of value in use and fair value less costs of disposal. These calculations require the use of judgement and estimates, in particular of future revenues or cash flows. Management has performed impairment assessment on the property, plant and equipment, goodwill and trademarks and concluded that no impairment is necessary to be made as at 31 December 2016. Management believes that any reasonable possible deviation from any of these assumptions would not cause the aggregate carrying amounts of CGUs to exceed their recoverable amounts.

(c) Current and deferred taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters are different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax assets and liabilities in the period in which such determinations are made.

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

(d) Estimated impairment of receivables

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

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

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

(f) Retirement and long service benefits

The determination of the Group's liabilities under defined benefit plans and long service payment liabilities depends on a number of factors relating to an actuarial valuation using a number of assumptions. The key assumptions are disclosed in Notes 29(b) and 29(c). Any changes in these assumptions will impact the carrying amount of the benefit obligations in the period in which such assumptions have been changed.

4. Revenue and Segment Information

(a) Revenue

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

Revenue represents fair value of the consideration received or receivable from products sold, excludes value added tax or other sales taxes and is after reduction of any trade discounts.

(b) Segment information

Reportable segments are reported in a manner consistent with internal reports of the Group that are regularly reviewed by the chief operating decision makers (the Chief Executive Officer and Senior Management collectively) in order to assess performance and allocate resources. The Group manages its business by business units, which are organised by business lines and geography. The Group identified two reportable segments: (i) garment manufacturing, and (ii) branded product distribution, retail and trading. The chief operating decision makers assess the performance of the reportable segments and allocate resources between segments based on the measure of profit or loss generated. This measurement basis is equivalent to profit/loss for the year of that reportable segment.

4. Revenue and Segment Information (Continued)

(b) Segment information (Continued)

Segment assets include all tangible, intangible assets and current assets employed by the segments. Segment liabilities include all current liabilities and non-current liabilities managed directly by the segments. Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Inter-segment sales are priced with reference to prices charged to external parties for similar orders. The segment information is as follows:

	Garment manufacturing		Branded product distribution, retail and trading		Unallocated		Total	
	2016 *HK$'000*	2015 *HK$'000*	**2016** *HK$'000*	2015 *HK$'000*	**2016** *HK$'000*	2015 *HK$'000*	**2016** *HK$'000*	2015 *HK$'000*
Reportable segment revenue	**1,882,471**	1,973,005	**377,513**	588,202	**–**	–	**2,259,984**	2,561,207
Less: Inter-segment revenue	**(6,329)**	(45,469)	**–**	–	**–**	–	**(6,329)**	(45,469)
Revenue	**1,876,142**	1,927,536	**377,513**	588,202	**–**	–	**2,253,655**	2,515,738
Reportable segment profit/(loss) before tax	**71,230**	4,278	**(79,663)**	21,275	**(53,494)**	(19,295)	**(61,927)**	6,258
Income tax (expense)/credit	**(11,278)**	(7,874)	**(276)**	(32,672)	**(13,130)**	4,272	**(24,684)**	(36,274)
Reportable segment profit/(loss) for the year	**59,952**	(3,596)	**(79,939)**	(11,397)	**(66,624)**	(15,023)	**(86,611)**	(30,016)
Restructuring costs	**–**	(15,675)	**–**	–	**–**	–	**–**	(15,675)
Loss for the year							**(86,611)**	(45,691)

	Garment manufacturing		Branded product distribution, retail and trading		Unallocated *(Note (1))*		Total	
	As at 31 December 2016 *HK$'000*	As at 31 December 2015 *HK$'000*	**As at 31 December 2016** *HK$'000*	As at 31 December 2015 *HK$'000*	**As at 31 December 2016** *HK$'000*	As at 31 December 2015 *HK$'000*	**As at 31 December 2016** *HK$'000*	As at 31 December 2015 *HK$'000*
Reportable segment assets	**755,941**	850,792	**433,417**	511,931	**687,421**	859,505	**1,876,779**	2,222,228
Reportable segment liabilities	**303,666**	293,063	**138,235**	222,025	**198,905**	325,294	**640,806**	840,382

	2016 *HK$'000*	2015 *HK$'000*	**2016** *HK$'000*	2015 *HK$'000*	**2016** *HK$'000*	2015 *HK$'000*	**2016** *HK$'000*	2015 *HK$'000*
Finance income	**–**	–	**1,915**	–	**5,302**	13,953	**7,217**	13,953
Finance costs	**–**	–	**(492)**	(1,486)	**(5,450)**	(7,024)	**(5,942)**	(8,510)
Amortisation of leasehold land and land use rights	**(312)**	(248)	**–**	–	**(3,264)**	(2,951)	**(3,576)**	(3,199)
Amortisation of intangible assets	**–**	–	**(23,090)**	(74,656)	**–**	–	**(23,090)**	(74,656)
Depreciation on property, plant and equipment	**(37,494)**	(39,788)	**(10,724)**	(10,067)	**(18,783)**	(27,834)	**(67,001)**	(77,689)
(Provision for)/reversal of impairment of receivables, net	**(2,114)**	666	**–**	–	**–**	–	**(2,114)**	666
(Write-down)/reversal of write-down of inventories to net realisable value, net	**(5,645)**	(14,058)	**2,040**	(15,082)	**–**	–	**(3,605)**	(29,140)
Additions to non-current assets	**11,694**	16,216	**48,626**	169,094	**2,193**	2,756	**62,513**	188,066

4. Revenue and Segment Information (Continued)

(b) Segment information (Continued)

The principal activities of the Group are (i) garment manufacturing and (ii) branded product distribution, retail and trading. The Group's revenue is mainly derived from customers located in the People's Republic of China (the "PRC"), the United States of America ("US"), Canada and the United Kingdom ("UK"), while the Group's production facilities, trademark and other assets are located predominantly in the PRC, Luxembourg and Thailand. The PRC includes the Mainland China, Hong Kong and Macau. An analysis of the Group's revenue by location of customers and an analysis of the Group's non-current assets by location of assets are as follows:

	PRC		US and Canada		UK		Other countries		Total	
	2016 *HK$'000*	2015 *HK$'000*	**2016** *HK$'000*	2015 *HK$'000*	**2016** *HK$'000*	2015 *HK$'000*	**2016** *HK$'000*	2015 *HK$'000*	**2016** *HK$'000*	2015 *HK$'000*
Revenue	**602,522**	929,759	**908,849**	839,119	**566,499**	587,390	**175,785**	159,470	**2,253,655**	2,515,738

Included in revenue derived from the PRC was HK$289,275,000 (2015: HK$389,411,000) which was generated in Hong Kong.

For the year ended 31 December 2016, revenue from two customers in the garment manufacturing segment each accounted for more than 10% of the Group's total revenue and they represented approximately 17% and 16% (2015: 15% and 13%) of the total revenue respectively. Details of concentrations of credit risk arising from customers are set out in Note 35.1(b).

	PRC		Luxembourg		Thailand		Other countries		Total	
	As at 31 December 2016 *HK$'000*	As at 31 December 2015 *HK$'000*	**As at 31 December 2016** *HK$'000*	As at 31 December 2015 *HK$'000*	**As at 31 December 2016** *HK$'000*	As at 31 December 2015 *HK$'000*	**As at 31 December 2016** *HK$'000*	As at 31 December 2015 *HK$'000*	**As at 31 December 2016** *HK$'000*	As at 31 December 2015 *HK$'000*
Non-current assets *(Note (2))*	**379,749**	504,198	**160,275**	165,950	**62,571**	59,082	**60,753**	53,922	**663,348**	783,152

Included in non-current assets located in the PRC was HK$11,243,000 (2015: HK$42,785,000) which was related to assets located in Hong Kong.

Notes:

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

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

5. Other Income and Other Gains

	2016 *HK$'000*	2015 *HK$'000*
Consultancy and transitional services fee income from JW PRC Co *(Note (i))*	**70,685**	178,856
Transitional service fee income from Nautica licensor *(Note (ii))*	**23,265**	–
Government subsidies *(Note (iii))*	**4,434**	3,310
Net loss on disposals of property, plant and equipment	**(15,319)**	(154)
Sundry income	**4,712**	6,009
	87,777	188,021

Notes:

(i) Shanghai Tristate Enterprises Co., Ltd., a wholly-owned subsidiary of the Group, provided consultancy and transitional services to Jack Wolfskin Trading (Shanghai) Co., Ltd. ("JW PRC Co") after the early termination of the distribution license for Jack Wolfskin products in the PRC starting from 27 March 2015.

(ii) In July 2016, certain subsidiaries of the Group entered into agreements with relevant Nautica licensor whereby the Group agreed to provide full cooperation to the Nautica licensor in enabling a business transition in relation to the contractual expiry of the Group's license for the distribution of Nautica branded products on 31 December 2016. In consideration of the Group's agreement to provide cooperation for the business transition, the Nautica licensor agreed to pay US$3 million (equivalent to HK$23,265,000) to the Group.

(iii) The Group received HK$4,434,000 (2015: HK$3,310,000) government subsidies from the PRC government during the year ended 31 December 2016. There were no unfulfilled conditions and other contingencies attached to the receipts of these government subsidies. There is no assurance that the Group will continue to receive such government subsidies in the future.

6. Restructuring Costs

Restructuring costs in the year ended 31 December 2015 represented labour rationalisation costs of HK$15,675,000 incurred by Hefei Tristate Garment Manufacturing Company Limited during its production upgrade for producing outerwear products.

7. Loss from Operations

Loss from operations is stated after charging/(crediting):

	2016 HK$'000	2015 HK$'000
Amortisation of leasehold land and land use rights	**3,576**	3,199
Amortisation of intangible assets	**23,090**	74,656
Depreciation on property, plant and equipment	**67,001**	77,689
Provision for/(reversal of) impairment of receivables, net	**2,114**	(666)
Cost of inventories *(Note 21)*	**1,724,106**	1,934,316
Employee benefit expenses *(Note 13)*	**753,063**	837,105
Less: Amounts included in restructuring costs	**–**	(15,675)
	753,063	821,430
Minimum operating lease payments in respect of land and buildings	**78,238**	73,233
Contingent operating lease payments in respect of land and buildings	**1,835**	9,722
Net exchange loss/(gain)	**3,269**	(1,585)
Auditors' remuneration		
Audit services	**2,974**	2,922
Others	**799**	410

8. Finance Income/Finance Costs

	2016 HK$'000	2015 HK$'000
Finance income		
Interest income from bank deposits	**5,302**	13,953
Imputed interest on other receivable from an entity in the PRC	**1,915**	–
	7,217	13,953
Finance costs		
Interest on bank borrowings	**5,450**	7,024
Imputed interest on license fees payable	**492**	1,486
	5,942	8,510

9. Income Tax Expense

	2016 HK$'000	2015 HK$'000
Current income tax		
Hong Kong profits tax	**5,370**	1,024
Non-Hong Kong tax	**24,026**	45,479
Over-provisions of prior years	**(15,363)**	(2,194)
	14,033	44,309
Deferred tax	**10,651**	(8,035)
	24,684	36,274

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the year. Income taxes on non-Hong Kong profits have been calculated on the estimated assessable profits for the year at the tax rates prevailing in the countries/places in which the Group operates.

Subsidiaries established and operated in the Mainland China are subject to the Mainland China Enterprise Income Tax at the rate of 25% (2015: 25%). Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

The reconciliation between tax expense and accounting loss at applicable tax rates as follows:

	2016 HK$'000	2015 HK$'000
Loss before tax	**(61,927)**	(9,417)
Notional tax on loss before taxation calculated at statutory tax rate of 16.5%	**(10,218)**	(1,554)
Effect of different tax rates in other jurisdictions	**(3,824)**	8,179
Withholding tax	**(1,016)**	7,447
Tax effect of non-taxable income	**(2,017)**	(12,303)
Tax effect of non-deductible expenses	**6,897**	12,970
Tax effect of previously unrecognised tax losses	**(691)**	(5,348)
Reversal of previously recognised temporary difference	**27,309**	3,329
Tax effect of tax losses not recognised	**23,607**	25,748
Over-provisions of prior years	**(15,363)**	(2,194)
Income tax expense	**24,684**	36,274

10. Profit Attributable to Equity Shareholders of the Company

The profit attributable to equity shareholders of the Company is dealt with in the financial statements of the Company to the extent of HK$98,655,000 (2015: HK$37,036,000).

11. Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

12. Loss Per Share

(a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to equity shareholders of the Company by the weighted average number of shares in issue for the year.

	2016 *HK$'000*	2015 *HK$'000*
Loss attributable to equity shareholders of the Company	**(84,091)**	(45,669)
Weighted average number of ordinary shares in issue	**271,607,253**	271,415,669
Basic loss per share	**HK$(0.31)**	HK$(0.17)

(b) Diluted loss per share

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

During the years ended 31 December 2016 and 2015, the conversion of all potential ordinary shares outstanding would have an anti-dilutive effect on the loss per share. Hence, there was no dilutive effect on calculation of the diluted loss per share for the years ended 31 December 2016 and 2015.

13. Employee Benefit Expenses

	2016 *HK$'000*	2015 *HK$'000*
Directors' emoluments *(Note 14)*	**7,490**	7,388
Wages, salaries, allowances and bonuses	**646,288**	732,548
Welfare and other benefits	**64,589**	56,966
Retirement benefits		
– Defined contribution plans	**32,678**	38,204
– Defined benefit plans *(Note 29(b))*	**492**	542
– Long service payment liabilities *(Note 29(c))*	**1,109**	1,103
Share-based compensation expense – share options granted *(Note 34)*	**417**	354
Total employment expenses	**753,063**	837,105
Less: Amounts included in restructuring costs	**–**	(15,675)
	753,063	821,430

14. Directors' Emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are set out below:

Name	**Fees** *HK$'000*	**Salaries and other benefits** *HK$'000*	**Discretionary bonuses** *HK$'000*	**Employer's contribution to retirement benefit schemes** *HK$'000*	**2016 Total** *HK$'000*	2015 Total *HK$'000*
Executive Director:						
Mr. WANG Kin Chung, Peter	**–**	**5,232**	**–**	**145**	**5,377**	5,334
Non-Executive Directors:						
Ms. WANG KOO Yik Chun	**112**	**764**	**300**	**–**	**1,176**	1,171
Ms. MAK WANG Wing Yee, Winnie	**207**	**–**	**–**	**–**	**207**	206
Dr. WANG Shui Chung, Patrick	**132**	**–**	**–**	**–**	**132**	132
Independent Non-Executive Directors:						
Mr. LO Kai Yiu, Anthony	**268**	**–**	**–**	**–**	**268**	268
Mr. James Christopher KRALIK	**206**	**–**	**–**	**–**	**206**	165
Mr. Peter TAN	**124**	**–**	**–**	**–**	**124**	112
	1,049	**5,996**	**300**	**145**	**7,490**	7,388

15. Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2016 include one (2015: one) director, whose emoluments are disclosed in Note 14. Details of emoluments of the other four (2015: four) individuals are as follows:

	2016 ***HK$'000***	2015 *HK$'000*
Salaries, allowances and other benefits	**7,467**	8,435
Discretionary bonuses	**7,427**	31,762
Employer's contribution to retirement benefit schemes	**323**	143
	15,217	40,340

The emoluments of these four (2015: four) individuals are within the following bands:

	Number of employees	
	2016	2015
HK$3,000,001 – HK$3,500,000	**2**	–
HK$3,500,001 – HK$4,000,000	**–**	–
HK$4,000,001 – HK$4,500,000	**2**	–
HK$4,500,001 – HK$5,000,000	**–**	–
HK$5,000,001 – HK$5,500,000	**–**	1
HK$10,500,001 – HK$11,000,000	**–**	1
HK$12,000,001 – HK$12,500,000	**–**	1
HK$12,500,001 – HK$13,000,000	**–**	1
	4	4

16. Property, Plant and Equipment

	Freehold land+ ***HK$'000***	**Buildings+** ***HK$'000***	**Plant and machinery** ***HK$'000***	**Leasehold improvements, furniture, fixtures and equipment** ***HK$'000***	**Motor vehicles** ***HK$'000***	**Construction-in-progress** ***HK$'000***	**Total** ***HK$'000***
Cost:							
As at 1 January 2015	58,867	481,351	293,888	339,215	22,618	2,166	1,198,105
Exchange difference	(5,080)	(23,581)	(14,765)	(15,910)	(486)	(93)	(59,915)
Additions	–	335	9,576	10,979	1,123	103	22,116
Reclassification	–	–	–	2,013	–	(2,013)	–
Disposals	–	–	(21,984)	(8,874)	(1,009)	–	(31,867)
As at 31 December 2015	53,787	458,105	266,715	327,423	22,246	163	1,128,439
As at 1 January 2016	**53,787**	**458,105**	**266,715**	**327,423**	**22,246**	**163**	**1,128,439**
Exchanges differences	**312**	**(20,833)**	**(8,515)**	**(14,080)**	**(347)**	**(11)**	**(43,474)**
Additions	**–**	**325**	**7,448**	**21,020**	**805**	**–**	**29,598**
Acquisition of a subsidiary	**–**	**–**	**–**	**283**	**–**	**–**	**283**
Reclassification	**–**	**–**	**–**	**17**	**–**	**(17)**	**–**
Disposals	**–**	**(20,650)**	**(18,602)**	**(45,021)**	**(1,380)**	**–**	**(85,653)**
As at 31 December 2016	**54,099**	**416,947**	**247,046**	**289,642**	**21,324**	**135**	**1,029,193**
Accumulated depreciation:							
As at 1 January 2015	–	244,672	215,039	241,756	18,206	–	719,673
Exchange difference	–	(17,225)	(11,374)	(12,397)	(378)	–	(41,374)
Charge for the year	–	24,089	21,302	30,652	1,646	–	77,689
Written back on disposals	–	–	(21,043)	(8,409)	(990)	–	(30,442)
As at 31 December 2015	–	251,536	203,924	251,602	18,484	–	725,546
As at 1 January 2016	**–**	**251,536**	**203,924**	**251,602**	**18,484**	**–**	**725,546**
Exchanges differences	**–**	**(10,505)**	**(5,674)**	**(9,552)**	**(253)**	**–**	**(25,984)**
Charge for the year	**–**	**17,474**	**20,121**	**27,972**	**1,434**	**–**	**67,001**
Written back on disposals	**–**	**(7,735)**	**(17,087)**	**(43,364)**	**(1,333)**	**–**	**(69,519)**
As at 31 December 2016	**–**	**250,770**	**201,284**	**226,658**	**18,332**	**–**	**697,044**
Net book value:							
As at 31 December 2016	**54,099**	**166,177**	**45,762**	**62,984**	**2,992**	**135**	**332,149**
As at 31 December 2015	53,787	206,569	62,791	75,821	3,762	163	402,893

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

Depreciation expense of HK$27,617,000 (2015: HK$29,634,000) is included in cost of sales, HK$5,430,000 (2015: HK$5,759,000) is included in selling and distribution expenses and HK$33,954,000 (2015: HK$42,296,000) is included in general and administrative expenses.

17. Leasehold Land and Land Use Rights

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

	2016 HK$'000	2015 HK$'000
Outside Hong Kong		
– Medium-term leases	**130,863**	143,356

	2016 HK$'000	2015 HK$'000
Cost:		
As at 1 January	**167,348**	183,736
Exchange difference	**(10,608)**	(16,388)
As at 31 December	**156,740**	167,348
Accumulated amortisation:		
As at 1 January	**23,992**	22,250
Exchange difference	**(1,691)**	(1,457)
Charge for the year	**3,576**	3,199
As at 31 December	**25,877**	23,992
Net book value:	**130,863**	143,356

Amortisation of HK$3,576,000 (2015: HK$3,199,000) is included in general and administrative expenses.

18. Intangible Assets

	Goodwill HK$'000	License rights and service right (Note (a)) HK$'000	Trademark (Note (b)) HK$'000	Customer relationship and others (Note (c)) HK$'000	Total HK$'000
Cost:					
As at 1 January 2015	20,893	264,788	–	–	285,681
Additions	–	–	165,950	–	165,950
As at 31 December 2015	20,893	264,788	165,950	–	451,631
As at 1 January 2016	**20,893**	**264,788**	**165,950**	**-**	**451,631**
Additions	**-**	**25,687**	**-**	**436**	**26,123**
Acquisition of a subsidiary	**-**	**-**	**-**	**6,509**	**6,509**
Exchange adjustment	**-**	**-**	**(5,675)**	**(162)**	**(5,837)**
As at 31 December 2016	**20,893**	**290,475**	**160,275**	**6,783**	**478,426**
Accumulated amortisation:					
As at 1 January 2015	20,893	170,260	–	–	191,153
Amortisation	–	74,656	–	–	74,656
As at 31 December 2015	20,893	244,916	–	–	265,809
As at 1 January 2016	**20,893**	**244,916**	**-**	**-**	**265,809**
Amortisation	**-**	**19,872**	**-**	**3,218**	**23,090**
As at 31 December 2016	**20,893**	**264,788**	**-**	**3,218**	**288,899**
Net book value:					
As at 31 December 2016	**-**	**25,687**	**160,275**	**3,565**	**189,527**
As at 31 December 2015	**-**	19,872	165,950	–	185,822

Amortisation of HK$19,872,000 (2015: HK$32,296,000) is included in the selling and distribution expenses and HK$3,218,000 (2015: HK$42,360,000) is included in general and administrative expenses.

Notes:

(a) License rights and service right

License rights represent capitalisation of the minimum contractual obligation payable to licensors at the time of inception. They are recognised based on discount rates equal to the Group's weighted average external borrowing rates of approximately 3.0% to 5.5% (2015: 3.0% to 5.0%) per annum at the dates of inception.

During the year, the Group entered into a 10 years (renewable for an additional 10 years) license agreement for the sourcing and distribution of "ACBC" brand footwear products in the PRC. The relating minimum contractual obligation payable to the licensor is recognised in license fees payable (Note 30).

Service right represents the contractual right recognised for the provision of consultancy and transitional services to JW PRC Co after the early termination of the Jack Wolfskin license. The service right was inherited from the original license which entitled the Group to obtain substantially the entire pre-tax earnings of JW PRC Co up to 31 December 2015. The service right was fully amortised up to 31 December 2015.

(b) Trademark

It represents C.P. Company trademark which is regarded as having an indefinite useful life and there is no foreseeable limit to the period over which it is expected to generate cash flows for the Group as it is expected that the value will not be reduced through usage and the cost of renewal of period for their use is negligible.

Impairment test for CGU containing trademark

The trademark is allocated to a CGU under branded product distribution, retail and trading segment. The recoverable amount of the CGU was based on value in use calculations covering a 10-year period. Cash flows beyond the 10-year period are extrapolated using the estimated rate of 2%. The following key assumptions have been used for the value in use calculations.

Cashflows

The cashflows for the value in use calculations are based on the latest forecasts extended to 10 years at underlying growth rates.

Discount rate

The cash flows are discounted using a risk-adjusted pre-tax discount rate of 18.05% which was derived from the post-tax discount rate of 15.6%.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount measurement is based would not cause the carrying amount to exceed its recoverable amount.

(c) Customer relationship

In March 2016, the Group acquired 99% equity interest of the distributor of C.P. Company products in Japan, FGF Industry Japan, Inc., at a consideration of HK$5,327,000. The company was subsequently renamed as Tristate Japan, Inc. Customer relationship acquired was amounted to HK$6,509,000. As the acquisition is considered not significant to the Group, detailed disclosures regarding the acquisition in accordance with HKFRS 3 "Business Combination" is not presented.

19. Other Long-Term Assets

	2016 HK$'000	2015 HK$'000
Advance to an employee *(Note 37(b)(ii))*	**5,413**	6,123
Long-term rental, utilities and other deposits	**3,296**	12,406
Club debentures	**2,100**	2,100
	10,809	20,629

20. Interest in an Associate

Particulars of the associate, which is an unlisted corporate entity, as at 31 December 2016 and 2015 are as follows:

Name of associate	Place of incorporation/ establishment	% interest held by a subsidiary	Nature of the relationship	Measurement method
MAC International Sarl	Morocco	50%	*Note*	Equity

Note:

MAC International Sarl is a private company which is inactive and under liquidation during the years ended 31 December 2016 and 2015. There is no quoted market price available for the shares of MAC International Sarl. There are no contingent liabilities relating to the Group's interest in the associate. The associate does not have a significant impact on the Group's results of operations and financial position in 2016 and 2015.

21. Inventories

(a) Inventories in the consolidated statement of financial position comprise:

	2016 ***HK$'000***	2015 *HK$'000*
Raw materials	**60,038**	55,885
Work-in-progress	**109,482**	101,149
Finished goods	**60,116**	101,949
Goods in transit	**12,891**	14,821
	242,527	273,804

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2016 ***HK$'000***	2015 *HK$'000*
Carrying amount of inventories sold	**1,720,501**	1,905,176
Write down of inventories	**8,853**	29,144
Reversal of write-down of inventories	**(5,248)**	(4)
	1,724,106	1,934,316

The reversal of write-down of inventories made in prior years was the result of use of written-down raw materials in the production process and sales of written-down finished goods.

22. Accounts Receivable and Bills Receivable

As of the end of the reporting period, the aging of accounts receivable and bills receivable based on invoice date is as follows:

	2016 ***HK$'000***	2015 *HK$'000*
Less than 3 months	**273,067**	312,877
3 months to 6 months	**5,384**	1,713
Over 6 months	**2,415**	1,031
	280,866	315,621
Less: Provision for impairment	**(2,415)**	(1,031)
	278,451	314,590

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

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

As at 31 December 2016, accounts receivable and bills receivable of HK$140,198,000 (2015: HK$161,948,000) were neither past due nor impaired. Accounts receivable and bills receivable of HK$138,253,000 (2015: HK$152,642,000) were past due but considered not to be impaired. These relate to a number of customers for whom there is no history of default. The aging of these receivables based on invoice date is as follows:

	2016 ***HK$'000***	2015 *HK$'000*
Less than 3 months	**132,869**	150,929
3 months to 6 months	**5,384**	1,713
	138,253	152,642

As at 31 December 2016, accounts receivable and bills receivable over 6 months of HK$2,415,000 (2015: HK$1,031,000) were considered impaired and had been fully provided for. The risk of accounts receivable and bills receivable that are neither past due nor impaired as at 31 December 2016 becoming impaired is considered low as most of the balances related to customers with no history of default.

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

	2016 ***HK$'000***	2015 *HK$'000*
At 1 January	**1,031**	2,052
Provision for/(reversal of) impairment	**2,114**	(666)
Receivables written off during the year as uncollectible	**(730)**	(355)
At 31 December	**2,415**	1,031

The provision for impaired receivables has been included in general and administrative expenses. Provision for impairment in respect of accounts receivable and bills receivable are recorded using an allowance account. The allowance account and the accounts receivable and bills receivable are directly written off when there is no expectation of recovery.

22. Accounts Receivable and Bills Receivable (Continued)

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

	2016 *HK$'000*	2015 *HK$'000*
United States dollars	**236,686**	263,151
Renminbi	**17,697**	48,149
Euro	**13,285**	–
Pound Sterling	**4,631**	–
Others	**6,152**	3,290
	278,451	314,590

23. Forward Foreign Exchange Contracts

	2016 *HK$'000*	2015 *HK$'000*
Cash flow hedges *(Note (i))*		
Included in:		
Current assets	**316**	–
Included in:		
Non-current liabilities	**36,689**	29,546
Current liabilities	**19,629**	13,917
	56,318	43,463

The maximum exposure to credit risk is the fair value as stated above of the forward foreign exchange contracts under current assets in the consolidated statement of financial position. The outstanding forward foreign exchange contracts with maturity dates within one year are classified as current assets and liabilities, while those with maturity dates more than one year are classified as non-current assets and liabilities. The financial risk management on fair value estimation is set out in Note 35.3.

Notes:

(i) Forward foreign exchange contracts – cash flow hedges

As at 31 December 2016, the notional principal amount of the outstanding forward foreign exchange contracts under cash flow hedges was HK$484,489,000 (2015: HK$767,240,000). The hedges related to PRC subsidiaries' highly probable forecasted processing income denominated in foreign currencies and a European subsidiary's highly probable forecasted sales revenue in Pound Sterling, of which notional principal of HK$267,548,000 (2015: HK$468,869,000) relates to transactions expected to occur more than 12 months and notional principal of HK$216,941,000 (2015: HK$298,371,000) relates to transactions expected to occur within 12 months.

Gains and losses of forward foreign exchange contracts recorded in the hedging reserve in the consolidated statement of comprehensive income for the year ended 31 December 2016 are to be recognised in the consolidated statement of profit or loss when the underlying hedged transactions affect the consolidated statement of profit or loss.

The forward foreign exchange contracts entered during 2016 and 2015 were determined to be effective hedges and no gain or loss relating to the ineffective portion was recognised in the consolidated statement of profit or loss.

(ii) Forward foreign exchange contracts – net investment hedge

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

24. Prepayments and Other Receivables

	2016 *HK$'000*	2015 *HK$'000*
Other receivable from an entity in the PRC *(Note (i))*	**88,433**	122,357
Other receivable from Nautica licensor *(Note (ii))*	**20,708**	–
Advance payments for purchases of inventories	**3,488**	8,232
Rental deposits	**11,378**	7,932
Value added tax and custom duties recoverable	**8,749**	9,465
Income tax recoverable	**552**	2,362
Prepaid operating expenses	**12,169**	16,991
Others	**9,902**	9,744
	155,379	177,083
Included in:		
Non-current assets	**–**	30,452
Current assets	**155,379**	146,631
	155,379	177,083

Notes:

(i) Other receivable from an entity in the PRC represents consultancy and transitional services fee income receivable from JW PRC Co (Note 5).

(ii) Other receivable from Nautica licensor represents receivables for income from transitional services upon expiry of a license agreement and transfer of inventories and property, plant and equipment.

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

25. Cash and Bank Balances

	2016 HK$'000	2015 HK$'000
Short-term bank deposits	**126,598**	251,015
Cash at bank and on hand	**248,577**	178,777
Cash and cash equivalents in the consolidated cash flow statement	**375,175**	429,792
Short-term bank deposits, with maturities over 3 months	**120,676**	207,099
Bank structured deposits	**27,390**	29,243
Cash and bank balances in the consolidated statement of financial position	**523,241**	666,134

Bank structured deposits are principally-protected hybrid instruments that include a non-derivative Renminbi deposits host contract and an embedded derivative. The embedded derivative causes the cash flows that otherwise would be required by the contract to be modified according to the movement of a foreign exchange rate.

The embedded derivative is separated from the host contract and accounted for as a derivative at fair value while the host contract is accounted for as a financial asset at amortised cost. At the date of inception of the contract and at 31 December 2016, the fair value of the embedded derivative was insignificant.

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

	2016 HK$'000	2015 HK$'000
United States dollars	**295,954**	67,061
Renminbi	**175,769**	557,039
Hong Kong dollars	**22,595**	20,092
Euro	**5,411**	543
Pound Sterling	**4,178**	1,404
Others	**19,334**	19,995
Total	**523,241**	666,134

The Group's cash and bank balances denominated in Renminbi were deposited with banks in Hong Kong and the PRC. The conversion of those Renminbi denominated balances into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

26. Accounts Payable and Bills Payable

As of the end of the reporting period, the aging of accounts payable and bills payable based on invoice date is as follows:

	2016 HK$'000	2015 HK$'000
Less than 3 months	**80,382**	82,438
3 months to 6 months	**4,837**	6,332
Over 6 months	**2,910**	4,060
	88,129	92,830

The majority of payment terms with suppliers are within 60 days.

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

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

	2016 HK$'000	2015 HK$'000
United States dollars	**42,163**	44,793
Euro	**27,333**	2,777
Hong Kong dollars	**14,024**	16,336
Renminbi	**2,225**	27,670
Others	**2,384**	1,254
	88,129	92,830

27. Accruals and Other Payables

Accruals and other payables mainly consist of the current portion of license fees payable, payables for royalty fees, accrued employee benefit expenses and other operating expenses. All of the accruals and other payables are expected to be settled within one year.

28. Bank Borrowings

As at 31 December 2016, the Group's bank borrowings were unsecured and covered by corporate guarantees given by the Company. The bank borrowings were due for repayment within three months at the end of the reporting period. As at 31 December 2016, bank borrowings of HK$198,905,000 (2015: HK$313,560,000) and Nil (2015: HK$11,734,000) bore interest at fixed rates and floating rates respectively. The interest rates of the bank borrowings ranged from 1.9% to 2.1% per annum (2015: 1.5% to 2.1% per annum).

Bank borrowings are denominated in United States dollars.

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

29. Retirement Benefits and Other Post Retirement Obligations

	2016 HK$'000	2015 HK$'000
Defined benefit plans *(Note (b))*	**(7,735)**	(8,043)
Long service payment liabilities *(Note (c))*	**19,812**	21,416
	12,077	13,373
Included in non-current assets	**(7,735)**	(8,043)
Included in non-current liabilities	**19,812**	21,416
	12,077	13,373

Notes:

(a) Defined contribution plans

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

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

(ii) The Mandatory Provident Fund Scheme for employees in Hong Kong, under which the Group and its employee each makes monthly contribution to the scheme at 5% of the qualifying earnings of the employee, subject to a cap of monthly relevant income of HK$30,000.

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

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

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

(vi) Contributions to the defined contribution schemes of other countries are at various funding rates that are in accordance with the local practice and regulations. Contributions relating to the defined contribution schemes are charged to profit or loss as incurred.

Contributions to the defined contribution plans other than (i) above vest immediately. Other than the mandatory contributions made by the Group under the respective defined contribution plans, the Group has no further obligations for the actual pension payments or any post retirement benefits.

(b) Defined benefit plans

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

(i) A defined benefit retirement plan is operated by the Group's subsidiaries in the Philippines. The Group bears the full cost of all plan benefits and the plan assets are invested mainly in a fixed income fund through third party trustee. The benefits are based on a prescribed percentage of the final monthly basic salary and the period of credited services.

(ii) A defined benefit retirement scheme is operated by the Group's subsidiaries in Taiwan. The Group bears the full cost of all benefits and the assets for the benefits are invested through the Bank of Taiwan in a balanced portfolio of cash, fixed income and equity investments. The benefits are based on the average monthly salary for the six months immediately preceding the date of cessation of service with the Group.

The latest actuarial valuations of the above plans were performed by BMI Appraisals Limited, an independent professional valuation firm, as at 31 December 2016, using the projected unit credit method. Based on the actuarial reports, the aggregate market value of the plan assets as at 31 December 2016 was HK$21,931,000 (2015: HK$22,135,000), representing approximately 154% (2015: 157%) of the actuarial accrued liabilities at that date.

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

	2016 HK$'000	2015 HK$'000
Present value of funded obligations	**14,196**	14,092
Fair value of plan assets	**(21,931)**	(22,135)
Net defined benefit plan assets	**(7,735)**	(8,043)

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amount recoverable in the next twelve months, as future contributions will also relate to future services rendered and future change in actuarial assumptions and market conditions.

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2016 HK$'000	2015 HK$'000
Current service cost	**634**	643
Net interest income on net defined benefit plan assets	**(142)**	(101)
Total, included in employee benefit expenses	**492**	542

29. Retirement Benefits and Other Post Retirement Obligations (Continued)

Notes (Continued)*:*

(b) Defined benefit plans (Continued)

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

	2016 HK$'000	2015 HK$'000
As at 1 January	**14,092**	16,548
Current service cost	**634**	643
Interest expense	**456**	557
Remeasurement – actuarial gain arising from changes in demographic assumptions	**(156)**	(1,506)
Remeasurement – actuarial gain arising from changes in financial assumptions	**(40)**	(109)
Exchange differences	**(261)**	(756)
Benefits paid by the Group	**(142)**	(303)
Benefits paid by the plans	**(387)**	(982)
As at 31 December	**14,196**	14,092

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

	2016 HK$'000	2015 HK$'000
As at 1 January	**22,135**	23,536
Interest income	**598**	658
Remeasurement – return on plan assets, excluding amounts included in interest income	**(239)**	(76)
Exchange differences	**(176)**	(1,001)
Benefits paid by the plan	**(387)**	(982)
As at 31 December	**21,931**	22,135

The principal actuarial assumptions used are as follows:

	2016	2015
Discount rate	**1% to 6%**	1% to 6%
Expected rate of future salary increase	**3% to 5%**	3% to 5%

The Group expects not to contribute to its defined benefit plans in the year ending 31 December 2017 (2016: Nil). The weighted average duration of the defined benefit obligations is 10 years (2015: 11 years).

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

	2016	2015
Deposits with financial institutions	**12.1%**	22.6%
Bonds	**38.2%**	33.4%
Stocks	**20.4%**	27.3%
Other assets	**29.3%**	16.7%
Represented by:		
Assets have a quoted market price	**59%**	61%
Assets do not have a quoted market price	**41%**	39%

The most significant risk facing the defined benefit plans of the Group is market risk including price risk, interest rate risk and foreign exchange risk. Market risk is managed principally through diversification of investments by third party trustees. The long-term strategic asset allocations would also be monitored by third party trustees periodically taking into account of the liability profile of the plans.

The sensitivity of the defined benefit obligations to changes as a result of the changes in the significant actuarial assumptions is:

	Impact on defined benefit obligations		
Principal assumption	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.50%	Decrease by 4.6% (2015: Decrease by 5.0%)	Increase by 4.9% (2015: Increase by 5.4%)
Salary growth rate	0.50%	Increase by 4.9% (2015: Increase by 5.4%)	Decrease by 4.6% (2015: Decrease by 5.0%)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

(c) Long service payment liabilities

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

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

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

29. Retirement Benefits and Other Post Retirement Obligations (Continued)

Notes (Continued):

(c) Long service payment liabilities (Continued)

The latest actuarial valuations of the Group's major obligations of long service payment liabilities as at 31 December 2016 were carried out by BMI Appraisals Limited, an independent professional valuation firm, using the projected unit credit method.

	2016 **HK$'000**	2015 HK$'000
Liability in the statement of financial position:		
Present value of unfunded obligations	**19,812**	21,416

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2016 **HK$'000**	2015 HK$'000
Current services cost	**343**	312
Interest cost	**766**	791
Total, included in employee benefit expenses	**1,109**	1,103

Movement in the present value of unfunded obligations:

	2016 **HK$'000**	2015 HK$'000
As at 1 January	**21,416**	19,906
Current service cost	**343**	312
Interest expense	**766**	791
Benefit paid by the Group	**(741)**	(920)
Remeasurement – actuarial (gain)/loss arising from changes in demographic assumptions	**(315)**	1,673
Remeasurement – actuarial (gain)/loss arising from changes in financial assumptions	**(1,772)**	1,295
Exchange difference	**115**	(1,641)
As at 31 December	**19,812**	21,416

The principal actuarial assumptions used are as follows:

	2016	2015
Discount rate	**2% to 8%**	2% to 8%
Expected rate of future salary increase	**3% to 5%**	3% to 10%

The weighted average duration of the long service payment liabilities is 12 years (2015: 12 years).

The sensitivity of the present value of unfunded obligations to changes as a result of the changes in the significant assumptions is:

	Impact on present value of unfunded obligations		
Principal assumption	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.50%	Decrease by 5.2% (2015: Decrease by 5.5%)	Increase by 5.6% (2015: Increase by 5.9%)
Salary growth rate	0.50%	Increase by 5.5% (2015: Increase by 5.8%)	Decrease by 5.2% (2015: Decrease by 5.5%)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

30. License Fees Payable

	2016 **HK$'000**	2015 HK$'000
Within 1 year	**749**	15,241
More than 1 year but less than 2 years	**1,471**	–
More than 2 years but less than 5 years	**9,857**	–
More than 5 years	**24,168**	–
	36,245	15,241
Less: Imputed interest on license fees payable	**(10,558)**	(492)
Present value	**25,687**	14,749
Less: Current portion included in accruals and other payables	**(749)**	(14,749)
Non-current portion	**24,938**	–
Estimated fair value of:		
Current portion	**749**	14,749
Non-current portion	**24,938**	–

Note:

License fees payable represents the contractual obligations at the time of recognition. It is recognised based on discount rates of 3.0% to 5.5% (2015: 3.0% to 5.0%) per annum at the date of inception of such obligations, which were determined by reference to the Group's weighted average external borrowing rate (Note 18(a)).

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

	2016 **HK$'000**	2015 HK$'000
Renminbi	**25,687**	–
United States dollars	**–**	14,749
	25,687	14,749

The estimated fair value of the license fees payable as at 31 December 2016 and 2015 was approximate to the carrying value.

31. Deferred Tax Assets/Liabilities

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

Deferred tax assets

	Provisions		Depreciation allowances less than the related depreciation		Tax losses		Total	
	2016 **HK$'000**	2015 HK$'000	**2016** **HK$'000**	2015 HK$'000	**2016** **HK$'000**	2015 HK$'000	**2016** **HK$'000**	2015 HK$'000
As at 1 January	**32,223**	40,559	**4,263**	4,373	**3,600**	490	**40,086**	45,422
Exchange differences	**1,264**	(587)	**8**	(30)	**–**	–	**1,272**	(617)
(Charged)/credited to profit or loss	**(28,579)**	(8,271)	**(848)**	(80)	**(1,234)**	3,110	**(30,661)**	(5,241)
(Charged)/credited to other comprehensive income	**(405)**	522	**–**	–	**–**	–	**(405)**	522
As at 31 December	**4,503**	32,223	**3,423**	4,263	**2,366**	3,600	**10,292**	40,086

Deferred tax assets are recognised for tax losses carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2016, the Group did not recognise deferred tax assets of HK$70,635,000 (2015: HK$46,783,000) for tax losses that can be carried forward against future taxable income. Cumulative tax losses of HK$51,145,000 (2015: HK$64,565,000) can be carried forward indefinitely; cumulative tax losses of HK$143,724,000 (2015: HK$68,169,000) will expire within the next five years; and cumulative tax losses of HK$113,677,000 (2015: HK$76,359,000) will expire after more than 5 years.

Deferred tax liabilities

	Depreciation allowances in excess of the related depreciation		Withholding tax for distribution of retained earnings of the PRC and overseas subsidiaries		Fair value adjustments on business combination		Total	
	2016 **HK$'000**	2015 HK$'000	**2016** **HK$'000**	2015 HK$'000	**2016** **HK$'000**	2015 HK$'000	**2016** **HK$'000**	2015 HK$'000
As at 1 January	**5,823**	5,200	**41,671**	49,019	**8,660**	16,206	**56,154**	70,425
Exchange differences	**(535)**	–	**153**	76	**72**	(873)	**(310)**	(797)
(Credited)/charged to profit or loss	**(4,476)**	623	**(15,591)**	(7,226)	**57**	(6,673)	**(20,010)**	(13,276)
Charged/(credited) to other comprehensive income	**–**	–	**110**	(198)	**–**	–	**110**	(198)
As at 31 December	**812**	5,823	**26,343**	41,671	**8,789**	8,660	**35,944**	56,154

(b) Reconciliation to the consolidated statement of financial position:

	2016 **HK$'000**	2015 HK$'000
Net deferred tax asset recognised in the consolidated statement of financial position	**5,782**	29,874
Net deferred tax liability recognised in the consolidated statement of financial position	**(31,434)**	(45,942)
	(25,652)	(16,068)

32. Share Capital

	2016 HK$'000	2015 HK$'000
Authorised: 500,000,000 (2015: 500,000,000) shares of HK$0.10 each	**50,000**	50,000

Issued and fully paid ordinary share capital:

	2016		2015	
	Number of shares	***HK$'000***	Number of shares	*HK$'000*
As at 1 January	**271,607,253**	**27,161**	271,191,253	27,119
Shares issued under share option scheme during the year *(Note)*	**–**	**–**	416,000	42
As at 31 December	**271,607,253**	**27,161**	271,607,253	27,161

Note:

During the year ended 31 December 2015, options were exercised to subscribe for 416,000 ordinary shares in the Company at a consideration of HK$791,000. The proceeds received were credited to share capital of HK$42,000 and share premium of HK$749,000 in accordance with policy set out in Note 2(o)(iii).

33. Reserves

The reconciliation between the opening and closing balances of each components of the Group's consolidated equity is set out below:

	Share premium *HK$'000*	Capital reserve *HK$'000*	Statutory reserves *HK$'000*	Translation reserve *HK$'000*	Share option reserve *HK$'000*	Remeasure-ments reserve *HK$'000*	Hedging reserve *HK$'000*	Contributed surplus *HK$'000*	General reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
As at 1 January 2016	**14,449**	**113,497**	**96,626**	**68,869**	**1,584**	**–**	**(43,463)**	**265,630**	**117,413**	**719,766**	**1,354,371**
Comprehensive income											
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(84,091)**	**(84,091)**
Other comprehensive income											
Net fair value losses on cash flow hedges	**–**	**–**	**–**	**–**	**–**	**–**	**(12,539)**	**–**	**–**	**–**	**(12,539)**
Remeasurements of defined benefit plans and long service payment liabilities	**–**	**–**	**–**	**–**	**–**	**2,044**	**–**	**–**	**–**	**–**	**2,044**
Deferred tax charged to other comprehensive income *(Note 31)*	**–**	**–**	**–**	**–**	**–**	**(515)**	**–**	**–**	**–**	**–**	**(515)**
Currency translation differences	**–**	**–**	**–**	**(48,603)**	**–**	**–**	**–**	**–**	**–**	**–**	**(48,603)**
Total comprehensive income	**–**	**–**	**–**	**(48,603)**	**–**	**1,529**	**(12,539)**	**–**	**–**	**(84,091)**	**(143,704)**
Transactions with owners											
Transfer	**–**	**–**	**975**	**–**	**–**	**(1,529)**	**–**	**–**	**–**	**554**	**–**
Acquisition of non-controlling interest	**–**	**(124)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(124)**
Share option scheme – value of employee services	**–**	**–**	**–**	**–**	**417**	**–**	**–**	**–**	**–**	**–**	**417**
Share options granted to employee lapsed	**–**	**–**	**–**	**–**	**(492)**	**–**	**–**	**–**	**–**	**492**	**–**
Total transactions with owners	**–**	**(124)**	**975**	**–**	**(75)**	**(1,529)**	**–**	**–**	**–**	**1,046**	**293**
As at 31 December 2016	**14,449**	**113,373**	**97,601**	**20,266**	**1,509**	**–**	**(56,002)**	**265,630**	**117,413**	**636,721**	**1,210,960**

33. Reserves (Continued)

	Share premium *HK$'000*	Capital reserve *HK$'000*	Statutory reserves *HK$'000*	Translation reserve *HK$'000*	Share option reserve *HK$'000*	Remeasure-ments reserve *HK$'000*	Hedging reserve *HK$'000*	Contributed surplus *HK$'000*	General reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
As at 1 January 2015	13,406	112,403	90,010	148,665	1,638	–	(13,660)	265,630	117,413	790,011	1,525,516
Comprehensive income											
Loss for the year	–	–	–	–	–	–	–	–	–	(45,669)	(45,669)
Other comprehensive income											
Net fair value losses on cash flow hedges	–	–	–	–	–	–	(29,803)	–	–	–	(29,803)
Remeasurements of defined benefit plans and long service payment liabilities	–	–	–	–	–	(1,429)	–	–	–	–	(1,429)
Deferred tax credited to other comprehensive income *(Note 31)*	–	–	–	–	–	720	–	–	–	–	720
Realisation upon liquidation of a subsidiary	–	–	–	838	–	–	–	–	–	–	838
Currency translation differences	–	–	–	(80,634)	–	–	–	–	–	–	(80,634)
Total comprehensive income	–	–	–	(79,796)	–	(709)	(29,803)	–	–	(45,669)	(155,977)
Transactions with owners											
Transfer	–	2,373	7,230	–	–	709	–	–	–	(10,312)	–
Reserve released upon liquidation of a subsidiary	–	(1,279)	(614)	–	–	–	–	–	–	1,893	–
Issue of shares pursuant to exercise of share options	1,043	–	–	–	(294)	–	–	–	–	–	749
Share option scheme – value of employee services	–	–	–	–	354	–	–	–	–	–	354
Share options granted to employee lapsed	–	–	–	–	(114)	–	–	–	–	114	–
Dividends paid to equity shareholders of the Company in respect of previous financial year	–	–	–	–	–	–	–	–	–	(16,271)	(16,271)
Total transactions with owners	1,043	1,094	6,616	–	(54)	709	–	–	–	(24,576)	(15,168)
As at 31 December 2015	14,449	113,497	96,626	68,869	1,584	–	(43,463)	265,630	117,413	719,766	1,354,371

33. Reserves (Continued)

(a) Share premium

The application of share premium account is governed by the Company's Bye-Laws and the Bermuda Companies Act 1981.

(b) Capital reserve

Capital reserve mainly relates to the amount transferred from retained earnings in connection with a declaration of stock dividend by a subsidiary during the years ended 31 December 2000 and 2015.

(c) Statutory reserve and general reserve

Subsidiaries incorporated in Taiwan are required to set aside 10% of their net profit each year to reserve, according to Company Law in Taiwan. This appropriation is made in the following year until the accumulated reserve equals the paid-in capital. Such reserve can be used to offset a deficit or, when it has reached 50% of the paid-in capital, up to 50% thereof may be transferred to capital. The amount set aside is included under statutory reserve. During the year ended 31 December 2016, subsidiaries in Taiwan have transferred HK$121,000 (2015: Nil) to statutory reserves.

The laws and regulations in the Mainland China require wholly foreign owned enterprises established in the Mainland China to provide for statutory reserves which are appropriated from net profit, based on profit reported in the statutory accounts. Certain subsidiaries in the Mainland China are required to allocate at least 10% of their after-tax profit to statutory reserves until the reserves have reached 50% of their registered capital. Statutory reserves can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. During the year ended 31 December 2016, subsidiaries in the Mainland China have transferred HK$854,000 (2015: HK$7,588,000) to statutory reserves.

General reserve mainly relates to the profit set aside by the Company according to the Company's Bye-Laws.

(d) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations and foreign exchange differences arising from hedges of the net investment in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Notes 2(d) and 2(l)(ii).

(e) Share option reserve

Share option reserve comprises the fair value at the grant date of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based compensation in Note 2(o)(iii).

(f) Remeasurement reserve

Remeasurements reserve is dealt with in accordance with the accounting policy adopted for the remeasurements of the net defined benefit liability as set out in Note 2(o)(ii).

(g) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in Note 2(l)(i).

(h) Contributed surplus

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

34. Share Option Schemes

(a) The 2007 Share Option Scheme (the "2007 Share Option Scheme")

Under the 2007 Share Option Scheme, share options may be granted from time to time as determined by the Board, to directors and employees of the Group. The grantee is required to pay HK$1.00 upon acceptance of the options. The subscription price for the shares of the Company, which are the subject of the options, shall not be less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price and timing for the exercise of the option will be determined by the Board at the time the option is offered. The options may only be exercised if the grantee remains a director or an employee of the Group. The Group has no legal or constructive obligations to repurchase or settle these options in cash. Details of the share options granted pursuant to the 2007 Share Option Scheme and the share options outstanding at 31 December 2016 are as follows:

	2016		2015	
	Average exercise price per share *HK$*	**Number of options**	Average exercise price per share *HK$*	Number of options
As at 1 January	**3.70**	**2,120,000**	3.51	2,240,000
Granted	**2.28**	**564,000**	2.97	540,000
Exercised	**–**	**–**	1.90	(416,000)
Lapsed	**4.01**	**(420,000)**	3.41	(244,000)
As at 31 December	**3.29**	**2,264,000**	3.70	2,120,000
Exercisable at 31 December	**3.66**	**1,465,000**	3.99	1,399,000

There were no exercise of share option during the year. The weighted average share price at the date of exercise for share options exercised in 2015 was HK$2.91.

The options outstanding at 31 December 2016 had a weighted average remaining contractual life of 2.69 years (2015: 2.60 years).

The 2007 Share Option Scheme was terminated with the approval by the shareholders at the annual general meeting of the Company held on 6 June 2016.

34. Share Option Schemes (Continued)

(b) The 2016 Share Option Scheme (the "2016 Share Option Scheme")

The 2016 Share Option Scheme was adopted by the shareholders of the Company at the annual general meeting held on 6 June 2016. During the year, no share options have been granted under the 2016 Share Option Scheme. Details of the 2016 Share Option Scheme are set out in the Report of the Directors.

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

		Number of share options			
Date of grant	Participant	At 31/12/2016	At 31/12/2015	Exercise price per share	Exercisable period
13/06/2011	Employees (in aggregate)	–	105,000	HK$4.01	13/06/2011 – 12/06/2016
		–	105,000	HK$4.01	13/06/2012 – 12/06/2016
		–	105,000	HK$4.01	13/06/2013 – 12/06/2016
		–	105,000	HK$4.01	13/06/2014 – 12/06/2016
18/06/2012	Employees (in aggregate)	**80,000**	80,000	HK$5.06	18/06/2012 – 17/06/2017
		80,000	80,000	HK$5.06	18/06/2013 – 17/06/2017
		80,000	80,000	HK$5.06	18/06/2014 – 17/06/2017
		80,000	80,000	HK$5.06	18/06/2015 – 17/06/2017
03/06/2013	Employees (in aggregate)	**104,000**	104,000	HK$3.92	03/06/2013 – 02/06/2018
		104,000	104,000	HK$3.92	03/06/2014 – 02/06/2018
		104,000	104,000	HK$3.92	03/06/2015 – 02/06/2018
		104,000	104,000	HK$3.92	03/06/2016 – 02/06/2018
09/06/2014	Employees (in aggregate)	**106,000**	106,000	HK$3.10	09/06/2014 – 08/06/2019
		106,000	106,000	HK$3.10	09/06/2015 – 08/06/2019
		106,000	106,000	HK$3.10	09/06/2016 – 08/06/2019
		106,000	106,000	HK$3.10	09/06/2017 – 08/06/2019
08/06/2015	Employees (in aggregate)	**135,000**	135,000	HK$2.97	08/06/2015 – 07/06/2020
		135,000	135,000	HK$2.97	08/06/2016 – 07/06/2020
		135,000	135,000	HK$2.97	08/06/2017 – 07/06/2020
		135,000	135,000	HK$2.97	08/06/2018 – 07/06/2020
09/05/2016	Employees (in aggregate)	**141,000**	–	HK$2.28	09/05/2016 – 08/05/2021
		141,000	–	HK$2.28	09/05/2017 – 08/05/2021
		141,000	–	HK$2.28	09/05/2018 – 08/05/2021
		141,000	–	HK$2.28	09/05/2019 – 08/05/2021
	Total	**2,264,000**	2,120,000		

The fair value of options granted during the year of 2016 determined using the Trinomial valuation model was HK$0.77 per option (2015: HK$0.74 per option). The significant inputs into the model are as follows:

	Year in which share options granted	
	2016	2015
Share price at the grant date	**HK$2.28**	HK$2.97
Exercise price	**HK$2.28**	HK$2.97
Dividend yield	**0%**	2%
Volatility	**39%**	33%
Annual risk-free interest rate	**1.0%**	1.3%

The volatility at the grant date, which measured the standard deviation of expected share price returns, is based on statistics of 260-week historical volatilities of comparable companies within the industry. The aggregate fair value of the above options granted during the year amounted to HK$435,000 (2015: HK$402,000) is to be recognised as employee benefit expense over the vesting periods together with a corresponding increase in equity.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option granted.

The total amount of employee benefit expense recognised in the consolidated statement of profit or loss for the year ended 31 December 2016 in relation to the 2007 Share Option Scheme amounted to HK$417,000 (2015: HK$354,000).

35. Financial Risk Management

35.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

For the years ended 31 December 2016 and 2015, sales of goods were mainly denominated in United States dollars, Pound Sterling and Renminbi. The major currencies for purchases were United States dollars, Renminbi and Euro. In addition, entities within the Group (whose functional currencies are Renminbi, Philippine Pesos, Thai Bahts and Vietnam Dongs) have monetary assets and liabilities denominated in Hong Kong dollars and United States dollars.

The Group has entered into forward foreign exchange contracts to hedge against foreign exchange exposures arising from United States dollars denominated processing income for factories in the PRC and Pound Sterling sales receipts of a Europe subsidiary.

At 31 December 2016, if Renminbi against Hong Kong dollars had strengthened/weakened by 5% with all other variables held constant, the post-tax loss for the year would be decreased/increased by HK$3,242,000 (2015: HK$7,667,000) mainly as a result of foreign exchange difference on translation of Renminbi denominated net monetary assets of a Hong Kong subsidiary; while the other comprehensive income would be increased/decreased by HK$19,660,000 (2015: HK$34,466,000), representing the impact of the change in fair value of forward foreign exchange contracts at the end of the reporting period.

At 31 December 2016, if Euro against Hong Kong dollars had strengthened/weakened by 5% with all other variables held constant, the post-tax loss for the year would be decreased/increased by HK$3,228,000 as a result of foreign exchange difference on translation of Euro denominated monetary assets of a Hong Kong subsidiary (2015: increased/decreased by HK$109,000 as a result of foreign exchange difference on translation of Euro denominated monetary liabilities).

If Pound Sterling, Philippine Pesos, Thai Bahts and Vietnam Dongs had strengthened/weakened against Hong Kong dollars by 5% at the year end date with all other variables held constant, the impact on post-tax loss for the year would not be significant.

(ii) Cash flow and fair value interest rate risk

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

At 31 December 2016, if interest rates on borrowings and bank balances had increased/decreased by 25 basis points with all other variables held constant, the impact on post-tax loss for the year would not be significant.

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

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

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The cash flow requirements for derivative financial instrument arising from forward foreign exchange contracts are separately provided as the contractual maturities are essential for the understanding of the timing of the cash flows.

	Within 1 year or on demand *HK$'000*	**More than 1 year but less than 2 years** *HK$'000*	**More than 2 years but less than 5 years** *HK$'000*	**More than 5 years** *HK$'000*	**Total** *HK$'000*
At 31 December 2016					
Accounts payable and bills payable	88,129	–	–	–	88,129
Accruals and other payables	194,407	–	–	–	194,407
Bank borrowings and interest payments	199,057	–	–	–	199,057
License fees payable	749	1,471	9,857	24,168	36,245
	482,342	1,471	9,857	24,168	517,838

	Within 1 year or on demand *HK$'000*	More than 1 year but less than 2 years *HK$'000*	More than 2 years but less than 5 years *HK$'000*	More than 5 years *HK$'000*	Total *HK$'000*
At 31 December 2015					
Accounts payable and bills payable	92,830	–	–	–	92,830
Accruals and other payables	211,452	–	–	–	211,452
Bank borrowings and interest payments	325,517	–	–	–	325,517
License fees payable	15,241	–	–	–	15,241
	645,040	–	–	–	645,040

35. Financial Risk Management (Continued)

35.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk (Continued)

All the Group's forward foreign exchange contracts outstanding at 31 December 2016 are net settlement contracts in hedge relationships. Contracts due to settle within 12 months require undiscounted contractual cash outflows of HK$19,629,000 (2015: HK$13,917,000). Contracts due to settle between 1 and 5 years require undiscounted contractual cash outflows of HK$36,689,000 (2015: HK$29,546,000). There is no gross settlement contract as at 31 December 2016 and 2015.

(b) Credit risk

Credit risk mainly arises from cash and bank balances, derivative financial instruments, rental deposits, outstanding accounts receivable, bills receivable and other receivables.

The Group's sales are mainly on open account. Each open account customer is granted an approved credit limit and the Group closely and regularly monitors the credit default risk of receivables from customers. During the year ended 31 December 2016, receivables from customers are substantially covered by credit insurance. At the end of the reporting period, 15% (2015: 12%) and 51% (2015: 49%) of the accounts receivable and bills receivable was due from the Group's largest customer and the five largest customers respectively in the garment manufacturing segment. Deteriorating operating conditions of customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial assets. To the extent that information is available, management has properly reflected estimates of expected future cash flows in the asset impairment assessments. Derivative counter parties and cash transactions are limited to high-credit-quality financial institutions. There is no significant credit risk in relation to the Group's cash and bank balances as cash and bank balances are placed with banks and financial institutions with good credit ratings.

Management makes periodic assessments on the recoverability of receivables and deposits, and is of the opinion that adequate provision for receivables with significant credit risk has been made.

35.2 Capital management

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

Total capital comprises "capital and reserves" as shown in the consolidated statement of financial position plus net borrowing, if any. During the years ended 31 December 2016 and 2015, the Group had no net borrowings, which is calculated as total borrowings less cash and cash equivalents.

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

35.3 Fair value estimation

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

Financial instruments are measured in the statement of financial position at fair value. HKFRS 13, "Fair value measurement" requires disclosure of fair value measurements according to the following fair value measurement hierarchy:

– Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in the active markets for identical assets or liabilities at the measurement date.

– Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs or which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs.

Forward foreign exchange contracts are measured at fair value and classified as level 2 valuations at 31 December 2016 and 2015. There was no transfer of financial assets between fair value hierarchy classifications for the years ended 31 December 2016 and 2015. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur. Level 2 hedging derivatives comprise forward foreign exchange contracts. These forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. The effects of discounting are generally insignificant for Level 2 derivatives. There was no change in valuation techniques during the year.

The carrying amount of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2016 and 2015.

35.4 Offsetting financial assets and financial liabilities

There is no material offsetting, enforceable master netting arrangement and similar agreements during the year.

36. Commitments

(a) Operating lease commitments

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable, as follows:

	2016 HK$'000	2015 HK$'000
Within 1 year	**22,879**	72,234
After 1 year but within 5 years	**17,051**	37,739
After 5 years	**6,007**	6,592
	45,937	116,565

Significant leasing arrangements in respect of land held under operating leases are described in Note 17.

Apart from these leases, the Group is the lessee in respect of a number of properties held under short-term non-cancellable operating leases. Except for the lease in respect of a piece of land located in the Philippines over 5 years, other leases typically run for an initial period of 1 to 3 years, with an option to renew the lease when all terms are renegotiated.

Certain non-cancellable operating leases in respect of properties included above are subject to contingent rent payments, which are charged at amounts varying from 15% to 30% (2015: 15% to 30%) of the monthly gross takings at the leased premises in excess of the base rents as determined in the respective lease agreements. The above disclosure in respect of operating lease commitments for properties exclude contingent rent payments, which are not committed.

(b) Capital commitments

The Group had no capital commitments as at 31 December 2016 and 2015.

37. Related Party Transactions

(a) Transactions with related parties

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

	2016 HK$'000	2015 HK$'000
A related company		
Rental expense *(Note)*	**8,316**	8,061

Note:

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

(b) Transactions with key management

(i) Key management personnel remuneration

Remuneration of key management personnel of the Group including amounts paid to the Company's directors as disclosed in Note 14 and certain of the highest paid employees as disclosed in Note 15, is as follows:

	2016 HK$'000	2015 HK$'000
Salaries, allowances and bonuses	**22,109**	34,499
Defined contribution plans	**513**	483
Share-based compensation expense		
– share options granted	**274**	266
	22,896	35,248

Total remuneration is included in "employee benefit expenses" (see Note 13).

(ii) Advance to an employee

In June 2012, a subsidiary of the Group made a cash advance of HK$12,000,000 to a key management employee of the Group. Pursuant to the agreement, the cash advance is unsecured and bears interest at the Group's cost of borrowing. The short-term portion of the cash advance of HK$3,500,000 plus related interest was repayable within one year. The remaining long-term portion of HK$8,500,000 was to be waived by the subsidiary in equal amount semi-annually over a period of ten years commencing from the third year while the individual remains as an employee of the Group. Any unwaived principal plus related accrued interest will be repayable upon cessation of employment of the employee. The short-term portion of the cash advance is included in prepayments and other receivables (Note 24). The long-term portion regarded as prepaid staff benefit is included in other long-term assets (Note 19) and is amortised over twelve years from the date of the advance.

In June 2013 and June 2014, the subsidiary and the individual entered into amendment agreements to change the repayment date of the short-term cash advance of HK$3,500,000. Pursuant to the 2014 amendment agreement, such cash advance is repayable by HK$1,000,000 each on or before 30 June 2014 and 30 June 2015 respectively, with the remaining balance of HK$1,500,000 plus accrued interest repayable on or before 30 June 2016. The short-term cash advance had been fully repaid as at 30 June 2016.

38. Notes to the Consolidated Cash Flow Statement

Reconciliation of loss before tax to cash generated from operations:

	2016 HK$'000	2015 HK$'000
Loss before tax	**(61,927)**	(9,417)
Adjustments for:		
Depreciation on property, plant and equipment	**67,001**	77,689
Amortisation of leasehold land and land use rights	**3,576**	3,199
Amortisation of intangible assets	**23,090**	74,656
Net loss on disposals of property, plant and equipment	**15,319**	154
Write-down inventories to net realisable value, net	**3,605**	29,140
Share-based compensation expense – share options granted	**417**	354
Provision for/(reversal of) impairment of receivables, net	**2,114**	(666)
Finance income	**(7,217)**	(13,953)
Finance costs	**5,942**	8,510
Effect of foreign exchange rate changes	**(6,716)**	(17,645)
Changes in working capital:		
Decrease in inventories	**33,207**	277,178
Decrease in accounts receivable and bills receivable	**36,162**	142,240
Decrease/(increase) in prepayments and other receivables	**29,372**	(48,222)
Decrease in accounts payable and bills payable	**(7,569)**	(82,002)
Decrease in accruals and other payables	**(69,155)**	(245,204)
Increase in retirement benefits and other post retirement obligations	**833**	422
Cash generated from operations	**68,054**	196,433

39. Company-Level Financial Information

(a) Company-level statement of financial position

	Note	2016 HK$'000	2015 HK$'000
Non-Current Assets			
Property, plant and equipment		**825**	1,164
Interests in subsidiaries		**566,185**	564,370
Deferred tax assets		**6**	6
		567,016	565,540
Current Assets			
Amounts due from subsidiaries		**565,012**	489,449
Prepayments and other receivables		**579**	419
Current tax recoverable		**–**	30
Cash and bank balances		**10,158**	5,335
		575,749	495,233
Current Liabilities			
Accruals and other payables		**7,652**	7,683
Amounts due to subsidiaries		**219,966**	237,030
Current tax payable		**15**	–
		227,633	244,713
Net Current Assets		**348,116**	250,520
Net Assets		**915,132**	816,060
Capital and Reserves			
Share capital	32	**27,161**	27,161
Reserves	39(b)	**887,971**	788,899
Total Equity		**915,132**	816,060

39. Company-Level Financial Information (Continued)

(b) Movements in components of equity

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share premium HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	General reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 January 2016	**14,449**	**1,584**	**321,020**	**110,000**	**341,846**	**788,899**
Comprehensive income						
Profit for the year *(Note 10)*	**–**	**–**	**–**	**–**	**98,655**	**98,655**
Total comprehensive income	**–**	**–**	**–**	**–**	**98,655**	**98,655**
Transactions with owners						
Share option scheme – value of employee services	**–**	**417**	**–**	**–**	**–**	**417**
Share options granted to employee lapsed	**–**	**(492)**	**–**	**–**	**492**	**–**
Total transactions with owners	**–**	**(75)**	**–**	**–**	**492**	**417**
As at 31 December 2016	**14,449**	**1,509**	**321,020**	**110,000**	**440,993**	**887,971**

	Share premium HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	General reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 January 2015	13,406	1,638	321,020	110,000	321,081	767,145
Comprehensive income						
Profit for the year *(Note 10)*	–	–	–	–	37,036	37,036
Total comprehensive income	–	–	–	–	37,036	37,036
Transactions with owners						
Issue of shares pursuant to exercise of share options	1,043	(294)	–	–	–	749
Share option scheme – value of employee services	–	354	–	–	–	354
Share options granted to employee lapsed	–	(114)	–	–	–	(114)
Dividends paid to equity shareholders of the Company in respect of the previous financial year	–	–	–	–	(16,271)	(16,271)
Total transactions with owners	1,043	(54)	–	–	(16,271)	(15,282)
As at 31 December 2015	14,449	1,584	321,020	110,000	341,846	788,899

40. Immediate and Ultimate Holding Company

At 31 December 2016, the directors consider the immediate parent and ultimate holding company of the Group to be Silver Tree Holdings Inc., which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

41. Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Year Ended 31 December 2016

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, "Statement of cash flows: Disclosure initiative"	1 January 2017
Amendments to HKAS 12, "Income taxes: Recognition of deferred tax assets for unrealised losses"	1 January 2017
HKFRS 9, "Financial instruments"	1 January 2018
HKFRS 15, "Revenue from contracts with customers"	1 January 2018
Amendments to HKFRS 7, "Share-based payment: Classification and measurement of share-based payment transactions"	1 January 2018
HKFRS 16, "Leases"	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, "Financial instruments: Recognition and measurement". HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss and (3) fair value through other comprehensive income. The classification is determined based on the contractual cash flow characteristics of the financial assets and the entity's business model for managing the financial assets.

Based on a preliminary assessment, the Group expects that the new classification and measurement requirements will not have a material impact on its accounting for financial assets.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's accounts receivable and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

(c) Hedge accounting

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group preliminarily assesses that its current hedge relationships will qualify as continuing hedges upon the adoption of HKFRS 9 and therefore it expects that the accounting for its hedging relationships will not be significantly impacted.

41. Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Year Ended 31 December 2016 (Continued)

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, "Revenue", which covers revenue arising from sale of goods and rendering of services, and HKAS 11, "Construction contracts", which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which may be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 2(r). Currently, revenue from sales of goods and provision of services is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. At contract inception, an entity evaluates whether it transfers the control to the customer over time and therefore revenue should be recognised over time – if not, then it transfers control at a point in time and revenue will be recognised at that single point in time.

Based on a preliminary assessment, the Group expects that revenue from sales of goods and provision of services will continue to be recognised at a point in time. However, as a result of the change from the risk-and-reward approach to the transfer-of-control approach, the point in time at which revenue will be recognised may change upon the adoption of HKFRS 15. Further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

(b) Sales with a right of return

Currently when the customers are allowed to return the products, the Group estimates the level of returns and makes an adjustment against revenue and cost of sales.

The Group expects that the adoption of HKFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

HKFRS 16, Leases

As disclosed in Note 2(s), currently the Group enters into leases as the lessee and classifies its leases as operating leases. Once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in Note 36(a), at 31 December 2016 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$45,937,000 for properties, part of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

42. Particulars of Principal Subsidiaries, all of which are unlisted, as at 31 December 2016

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding		
					by Company	by subsidiary	by Group
338 Apparel Limited	Hong Kong	Hong Kong	Branded product trading	HK$1,000,000	–	100%	100%
338 Fashion Co. Limited	Hong Kong	Hong Kong	Branded product distribution and retail	HK$3,000,000	–	100%	100%

42. Particulars of Principal Subsidiaries, all of which are unlisted, as at 31 December 2016

(Continued)

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
338 Fashion (Macau) Company Limited	Macau	Macau	Branded product distribution and retail	MOP25,000	–	100%	100%
Action Ease Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
All Asia Garment Industries, Inc.	The Philippines	The Philippines	Factory facilities leasing	P27,425,000	–	100%	100%
All Asia Industries Co., Ltd. *(Note (i))*	PRC	PRC	Garment manufacturing	HK$53,500,000	–	100%	100%
Apparel Trading & Property Ventures, Inc.	The Philippines	The Philippines	Investment holding	P7,500,000	–	100%	100%
Brilliant Idea International Limited	Hong Kong	Hong Kong	Investment holding	HK$100	–	100%	100%
昇韻管理咨詢(深圳)有限公司 *(Note (i))*	PRC	PRC	General administrative and supporting services	RMB500,000	–	100%	100%
Broad Ease Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
Cissonne (Shanghai) Enterprises Co., Ltd. *(Note (i))*	PRC	PRC	Branded product distribution and retail	RMB1,000,000	–	100%	100%
Cissonne Hong Kong Limited	Hong Kong	Hong Kong	General trading	HK$1	–	100%	100%
Dress Line Holdings, Inc.	The Philippines	The Philippines	Investment holding	P59,562,500 (common)	–	100%	100%
				P180,000,000 (preferred) *(Note (ii))*	–	100%	100%
Elite Fashion (Hong Kong) Limited	Hong Kong	Hong Kong	Investment holding	HK$2	–	95%	95%
Excellent Jade Limited	Hong Kong	Hong Kong	Garment trading and manufacturing	HK$10,000	–	100%	100%
Excellent Quality Apparel, Inc.	The Philippines	The Philippines	Garment manufacturing	P40,000,000	–	100%	100%
Gold Flower Limited	Hong Kong	Hong Kong	General administrative and supporting services	HK$10,000	–	100%	100%
Great Horizons Property Ventures, Inc.	The Philippines	The Philippines	Investment holding	P8,000,000	–	100%	100%
Guangzhou Excellent Fashion Design Company Limited *(Note (i))*	PRC	PRC	Garment design and provision of technical services	RMB1,500,000	–	100%	100%
Guangzhou Tristate Industrial Co., Ltd. *(Note (i))*	PRC	PRC	Garment manufacturing	HK$18,500,000	–	100%	100%
Hefei Tristate Garment Manufacturing Company Limited *(Note (i))*	PRC	PRC	Garment manufacturing	RMB105,000,000	–	100%	100%
合肥賢法服裝有限公司 *(Note (i))*	PRC	PRC	General trading	RMB1,000,000	–	100%	100%
HFT Corp. Limited	Hong Kong	Hong Kong	Investment holding	HK$10,000,000	–	100%	100%

42. Particulars of Principal Subsidiaries, all of which are unlisted, as at 31 December 2016
(Continued)

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
Honest Point Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
Hua Thai Manufacturing Public Company Limited	Thailand	Thailand	Garment manufacturing and exporting	THB100,000,000	–	99.87%	99.87%
Hwa Fuh Manufacturing Company (Hong Kong) Limited	Hong Kong	Hong Kong	Investment holding	HK$55,180,219	–	100%	100%
Joint Holdings & Trading Company Limited	Hong Kong	Hong Kong	Investment holding	HK$925 (ordinary)	–	100%	100%
				HK$7,200,075 (deferred) *(Note (iii))*	–	100%	100%
Keybird Limited	Hong Kong	Hong Kong	Investment holding	HK$3,000,000	100%	–	100%
Keyear Company Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	100%	–	100%
Maxride Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
Prime-Time Company Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
Prosperous Year International Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Quality Time Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	100%	–	100%
Shanghai Tristate Enterprises Co., Ltd. *(Note (i))*	PRC	PRC	Branded product distribution and retail	RMB180,000,000	–	100%	100%
Sharp Hero International Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Shiny Ease Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	95%	95%
Sigsbee Investment Limited	The Republic of Liberia	Hong Kong	Investment holding	US$1	100%	–	100%
Sparkling Ocean Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	100%	–	100%
Strong Pine Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	100%	–	100%
Tenmo Limited	Hong Kong	Hong Kong	Investment holding	HK$2,000,000	100%	–	100%
Timely Corporate Limited	Hong Kong	Hong Kong	Nominee and secretarial services	HK$1	100%	–	100%
Trinovation Italy S.r.l.	Italy	Italy	Product design and development	EUR20,000	–	95%	95%
Tristate Cissonne Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Tristate Cissonne International Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Tristate Cissonne IP Limited	British Virgin Islands	Hong Kong	Trademark holding	US$1	–	100%	100%
Tristate EFM Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Tristate EFM Hong Kong Limited	Hong Kong	Hong Kong	General trading	HK$1	–	100%	100%

42. Particulars of Principal Subsidiaries, all of which are unlisted, as at 31 December 2016

(Continued)

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	by subsidiary	by Group
Tristate EFM International Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Tristate EFM IP Limited	British Virgin Islands	Hong Kong	Trademark holding	US$1	–	100%	100%
Tristate Industrial Co., Ltd.	Taiwan	Taiwan	Sales liaison services	NT$20,000,000	–	100%	100%
Tristate International SA	Switzerland	Switzerland	General trading and marketing	CHF100,000	–	95%	95%
Tristate Italy S.r.l.	Italy	Italy	Trading of apparel and accessories	EUR10,000	–	95%	95%
Tristate Japan, Inc.	Japan	Japan	Garment trading and distribution	JPY5,000,000	–	95%	95%
Tristate Myanmar Company Limited	The Republic of the Union of Myanmar	The Republic of the Union of Myanmar	Garment manufacturing	US$1,126,322	–	100%	100%
Tristate Trading Limited	Malaysia	Macau	Garment trading	US$1	–	100%	100%
Tristate Tri-novation Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
Tristate Tri-novation Hong Kong Limited	Hong Kong	Hong Kong	Investment holding	HK$1	–	95%	95%
Tristate Trinovation IP S.à r.l.	Luxembourg	Luxembourg	Trademark holding and licensing	EUR12,500	–	95%	95%
Tristate US Inc.	United States of America	United States of America	Branded product distribution and retail	US$1	–	100%	100%
TT&Co Asia Limited	Hong Kong	Hong Kong	General trading	HK$10,000	–	100%	100%
Upgain Limited	British Virgin Islands	Hong Kong	Investment holding	US$16,000,000	–	99.87%	99.87%
Upgain (Vietnam) Manufacturing Company Limited	Vietnam	Vietnam	Garment manufacturing	US$4,000,000	–	100%	100%
Velmore Holdings Limited	England	England	Investment holding	GBP558,335.60	–	100%	100%
Velmore Limited	England	England	Design and customer support services	GBP30,000	–	100%	100%
Winner Wealth Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%

Notes:

(i) A wholly foreign owned enterprise established in the PRC.

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

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

None of the subsidiaries had any loan capital in issue at any time during the years ended 31 December 2016 and 2015.