Hembly International Holdings Limited
恒寶利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3989)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

HIGHLIGHTS

- Revenue amounted to HK$1,037.0 million, an increase of 69.5%
- Gross profit increased by 54.5% to HK$339.8 million at a margin of 32.8%
- Net profit attributable to shareholders of the Company increased by 37.9% to HK$107.7 million
- Basic earnings per share was HK40.32 cents per share
- Proposed final dividend of HK7.0 cents per share

RESULTS

The Board of Directors (the "Board") of Hembly International Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	3	**1,036,956**	611,689
Cost of sales		**(697,206)**	(391,801)
Gross profit		**339,750**	219,888
Fair value change of an investment property		**13,249**	–
Other income	4	**15,095**	5,554
Administrative expenses		**(134,107)**	(86,430)
Distribution and selling costs		**(63,518)**	(24,967)
Finance costs	5	**(40,517)**	(23,256)
Profit before tax	6	**129,952**	90,789
Income tax expense	7	**(21,828)**	(13,296)
Profit for the year		**108,124**	77,493
Attributable to:			
Equity holders of the Company		**107,747**	78,128
Minority interests		**377**	(635)
		108,124	77,493
Dividends recognised as distribution during the year	8	**26,236**	7,586
Earnings per share	9		
Basic		**HK40.32 cents**	HK36.50 cents
Diluted		**HK39.93 cents**	HK36.47 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Notes	**2007**	2006
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**230,983**	175,106
Investment property		**71,505**	–
Intangible asset		**10,186**	–
Goodwill		**20,800**	–
Prepaid lease payments		**64,911**	59,391
Loan to a jointly controlled entity		**5,168**	5,168
Available-for-sale investments		**2,870**	5,424
Deferred tax assets		**287**	–
		406,710	245,089
Current assets			
Inventories		**178,559**	107,315
Trade receivables	*10*	**243,759**	187,932
Deposits, prepayments and other receivables		**109,058**	58,229
Prepaid lease payments		**1,389**	1,246
Loans to jointly controlled entities		**8,273**	5,596
Amount due from a minority shareholder		**6,689**	1,300
Amount due from a related company	*11*	**174,388**	–
Amounts due from jointly controlled entities		**6,609**	6,112
Available-for-sale investments		**3,174**	1,960
Tax recoverable		**–**	1,584
Pledged bank deposits		**48,099**	57,462
Bank deposits with original maturity of more than three months		**313,767**	150,000
Bank balances and cash		**112,223**	30,982
		1,205,987	609,718
Assets classified as held for sale		**41,530**	–
		1,247,517	609,718
Current liabilities			
Trade payables	*12*	**131,260**	58,631
Other payables and accruals		**84,736**	28,802
Loans from joint venturers of jointly controlled entities		**13,441**	6,273
Amounts due to joint venturers of jointly controlled entities		**17,097**	6,682
Amount due to a jointly controlled entity		**5,812**	–
Taxation payable		**26,064**	10,459
Obligations under finance leases – due within one year		**910**	328
Bank borrowings – due within one year		**426,009**	287,871
Bank overdrafts		**607**	76
		705,936	399,122
Liabilities associated with assets classified as held for sale		**13,080**	–
		719,016	399,122
Net current assets		**528,501**	210,596
Total assets less current liabilities		**935,211**	455,685

	2007	2006
	HK$'000	*HK$'000*
Non-current liabilities		
Loans from joint venturers of jointly controlled entities	–	5,168
Obligations under finance leases – due after one year	**2,019**	596
Bank borrowings – due after one year	**257,128**	104,710
Convertible redeemable preference shares	**68,071**	–
Conversion option derivative liability	**22,022**	–
Deferred tax liabilities	**3,411**	–
	352,651	110,474
	582,560	345,211
Capital and reserves		
Share capital	**28,283**	25,288
Reserves	**546,624**	319,902
Equity attributable to equity holders of the Company	**574,907**	345,190
Minority interests	**7,653**	21
	582,560	345,211

Notes:

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

In the current year, the Group has applied, for the first time, the following new standard, amendment to Hong Kong Accounting Standard ("HKAS") and interpretations ("HK(IFRIC) – Int") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combination[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – INT 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC) – INT 12	Service Concession Arrangements[4]
HK(IFRIC) – INT 13	Customer Loyalty Programmes[5]
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group except for the adoption of HKFRS 3 (Revised) Business Combinations and HKAS 27 (Revised) Consolidation and Separate Financial Statements. HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment on changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two (2006: three) operating divisions – manufacture and sales of apparel and accessories and distribution and retailing of apparel and footwear. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Year ended 31 December 2007

	Manufacture and sales of apparel and accessories *HK$'000*	Distribution and retailing of apparel and footwear *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE				
External sales	**913,424**	**123,532**	**–**	**1,036,956**
Inter-segment sales	**7,381**	**–**	**(7,381)**	**–**
Total	**920,805**	**123,532**	**(7,381)**	**1,036,956**

Inter-segment sales are charged at prevailing market rates.

	Manufacture and sales of apparel and accessories *HK$'000*	Distribution and retailing of apparel and footwear *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
RESULT				
Segment result	**157,376**	**1,627**	**–**	**159,003**
Unallocated income				**8,076**
Unallocated corporate expense				**(9,859)**
Fair value change of an investment property				**13,249**
Finance costs				**(40,517)**
Profit before tax				**129,952**
Income tax expense				**(21,828)**
Profit for the year				**108,124**

Year ended 31 December 2006

	Manufacture and sales of apparel and accessories *HK$'000*	Distribution and retailing of apparel and footwear *HK$'000*	Other *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE					
External sales	551,924	59,406	359	–	611,689
Inter-segment sales	6,328	1,084	–	(7,412)	–
Total	558,252	60,490	359	(7,412)	611,689

Inter-segment sales are charged at prevailing market rates.

RESULT					
Segment result	121,445	91	61	–	121,597
Unallocated income					3,477
Unallocated corporate expense					(11,029)
Finance costs					(23,256)
Profit before tax					90,789
Income tax expense					(13,296)
Profit for the year					77,493

Geographical segments

The analysis of the Group's revenue by geographical market for the year is as follows:

	2007 ***HK$'000***	2006 *HK$'000*
Europe	**722,370**	476,284
The PRC	**270,699**	86,363
Others	**43,887**	49,042
	1,036,956	611,689

3. REVENUE

	2007	2006
	HK$'000	*HK$'000*
Sales of apparel and accessories	**913,424**	551,924
Distribution and retailing of apparel and footwear	**123,532**	59,406
Royalty fee income	**–**	359
	1,036,956	611,689

4. OTHER INCOME

	2007	2006
	HK$'000	*HK$'000*
Bank interest income	**7,482**	3,298
Interest income from a jointly controlled entity	**371**	179
Total interest income	**7,853**	3,477
Delivery charge received from customers and suppliers	**89**	462
Gain on disposal of available-for-sale investments	**278**	–
Management fee income from jointly controlled entities	**2,276**	180
Management fee income from outsiders	**1,214**	–
Reversal of impairment loss on loans to jointly controlled entities	**677**	–
Royalty fee income	**385**	–
Sundry income	**2,323**	1,435
	15,095	5,554

5. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings and overdrafts wholly repayable		
– within five years	**39,705**	22,535
– over five years	**307**	387
Obligations under finance leases	**134**	155
Loans from joint venturers of jointly controlled entities	**371**	179
	40,517	23,256

6. PROFIT BEFORE TAX

	2007	2006
	HK$'000	*HK$'000*
Profit before tax has been arrived at after charging:		
Auditors' remuneration	**1,822**	1,125
Cost of inventories recognised as an expense	**695,531**	391,801
Depreciation of property, plant and equipment	**15,007**	10,239
Amortisation of prepaid lease payments	**1,278**	623
Amortisation of intangible assets	**631**	–
Allowance for inventories	**1,675**	–
Impairment loss recognised in respect of trade receivables	**3,226**	–
Loss on disposal of property, plant and equipment	**1,061**	696
Exchange loss	**579**	2,542
Staff costs		
– directors' remuneration	**12,372**	8,967
– other staff costs	**71,032**	35,585
– retirement benefit scheme contribution excluding directors	**4,647**	3,026
	88,051	47,578

7. INCOME TAX EXPENSE

	2007	2006
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**16**	11
Other jurisdictions	**18,755**	13,345
	18,771	13,356
Under (over)provision in prior years:		
Hong Kong	**94**	282
Other jurisdictions	**(72)**	(6)
	22	276
Deferred tax:		
Current year	**3,035**	(336)
	21,828	13,296

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the years ended 31 December 2007 and 2006, respectively. Taxation arising in other jurisdiction is calculated at the rate prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries were exempted from PRC Foreign Enterprise Income Tax ("FEIT") for two years starting from their first profit-making year, followed by a 50% reduction for next three years ("Tax Incentive"). Accordingly, tax provision for these subsidiaries have been provided for after taking into account of these tax exemption during the years ended 31 December 2007 and 2006, respectively.

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate to 25% for certain subsidiaries from 1 January 2008 onward. The Tax Incentive continues to be applicable to those subsidiaries incorporated in the PRC already entitled the Tax Incentive before 1 January 2008.

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

	2007	2006
	HK$'000	*HK$'000*
Profit before tax	**129,952**	90,789
Tax at the domestic income tax rate of 24% (2006: 24%)	**31,189**	21,790
Tax effect of expenses not deductible for tax purpose	**5,716**	1,325
Tax effect of incomes not taxable for tax purpose	**(21,979)**	(295)
Tax effect on tax concession	**(7,934)**	(15,857)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,034**	(1,033)
Tax effect of tax losses not recognised	**14,190**	7,026
Tax effect of other deductible temporary differences not recognised	**–**	64
Utilisation of other deductible temporary differences not recognised	**(224)**	–
Net underprovision in prior years	**22**	276
Others	**(186)**	–
Income tax expense for the year	**21,828**	13,296

8. DIVIDENDS

	2007	2006
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
Interim dividend of HK3 cents per share (2006: HK3 cents)	**8,479**	7,586
2006 final dividend of HK7 cents per share (2005: Nil)	**17,757**	–
	26,236	7,586

The final dividend of HK7 cents (2006: HK7 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

9. EARNINGS PER SHARE

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

Earnings

	2007	2006
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share	**107,747**	78,128
Adjustment to the share of result of a subsidiary based on potential dilution of its earnings per share	**(372)**	–
Earnings for the purpose of diluted earnings per share	**107,375**	78,128

Number of shares

	2007	2006
	'000	*'000*
	(Note)	*(Note)*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**267,204**	214,058
Effect of dilutive potential ordinary shares for share options	**1,717**	168
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**268,921**	214,226

Note: The computation of diluted earnings per share does not assume the exercise of certain outstanding share options as the exercise price of those options is higher than the average market price shares for year 2007 and 2006.

10. TRADE RECEIVABLES

	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**247,156**	188,065
Less: allowance for doubtful debts	**(3,397)**	(133)
	243,759	187,932

The Group allows an average credit periods normally ranging from 60 days to 90 days to its trade customers.

The aged analysis of trade receivables (net of impairment) at the balance sheet dates is as follows:

	2007	2006
	HK$'000	*HK$'000*
0 – 90 days	**223,661**	178,755
91 – 180 days	**8,810**	6,700
181 – 360 days	**9,834**	619
Over 360 days	**1,454**	1,858
	243,759	187,932

Before accepting any new customer, the Group assesses the potential customer's credit quality by respective sales team and defines credit limit by customer.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$31,545,000 (2006: HK$19,371,000) which are past due at 31 December 2007 for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

11. AMOUNT DUE FROM A RELATED COMPANY

	2007
Name of related company	*HK$'000*
H4T S.R.l. ("H4T") *(Note)*	174,388

Note: Mr. Ngok Yan Yu, a director and major shareholder of the Company, has beneficial interests in this company.

The above amount represents trade receivable which is unsecured, interest free and the Group allows a credit period of 120 days.

The aged analysis of the amount due from a related company (net of impairment) at the balance sheet date is as follows:

	HK$'000
0 – 90 days	83,132
91 – 180 days	85,036
181 – 360 days	6,220
Total	174,388

Included in the Group's amount due from a related company is aggregate carrying amount of HK$20,070,000 (2006: Nil) which is past due at 31 December 2007 for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amount is still considered recoverable. The Group does not hold any collateral over the balance.

12. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	2007	2006
	HK$'000	*HK$'000*
0 – 90 days	**111,138**	54,924
91 – 180 days	**15,138**	2,535
181 – 360 days	**4,446**	731
Over 360 days	**538**	441
	131,260	58,631

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Overview

The Group continued to record robust performance in 2007 with revenue of HK$1,037.0 million. This represents an increase of 69.5% over last year. The Group's strong performance is based on the continued strong organic growth within its supply chain business, coupled with the improved performance of its distribution and retailing businesses. Profits attributable to the Company's equity holders increased by 37.9% to HK$107.7 million as compared to last year. Basic earnings per share increased by 10.5% to HK40.32 cents this year. The Group's overall gross margin dropped from 35.9% to 32.8%. This drop is mainly attributable to the Group's decreased gross margin for its supply chain business.

Supply chain services

Despite unfavorable circumstantial conditions surrounding the textile and garment industries in the PRC, which led to rising raw material prices, increased labor costs, textile trading regulatory changes and pricing pressures exerted by RMB appreciation, the Group's supply chain services continued to experience strong growth this year with a record high revenue of HK$913.4 million, representing an increase of 65.5% over last year. Meanwhile, the Group managed a moderate decrease in gross margin from 35.3% to 30.7% this year notwithstanding conflicting circumstantial conditions, coupled with the second half-year's exclusive sourcing for *Sergio Tacchini* ("ST") products, which pure trading sourcing basis attracts a comparatively lower margin.

Amidst vast technological advancements, the world today has become very inter-connected and is almost a level playing field, seamlessly linking East and West. With cheaper labor costs coupled with articulated China personnel, sourcing services continued to migrate from Europe to Asia and especially to China *en masse*, leaving European mid-to-high end brands to focus on marketing and sales channel development. In this regard, the Group's early entrance into the European market, as well as its foresight to create added values for customers, created exceptional leverage for the Group to optimize this sourcing migration trend.

In retrospect, the Group's strategy of consolidating its customer base to focus on mid-to-high end customers with high margins and significant growth potential has proved to be both astute and forward-looking. Gradually, China has become the "world's factory" with the support of improved production techniques and experienced human resources. The Group is therefore well placed to cater to the increasing demand for outsourcing of mid-to-high end goods, especially now that low-end goods sourcing has shifted to other emerging markets with lower production costs. During the year, the Group has not only enjoyed robust increase in orders from existing customers, but also continued to expand its customer base.

With 40 years of history, *ST* is a prominent sports brand famous for its elegant and stylish sportswear, particularly in tennis-related fashion apparel. In March 2007, the chairman of the Company, Mr. Ngok, granted an option to the Group for the acquisition of his interests in the *ST* business within a period of three years commencing from 24 May 2007. Simultaneous with the granting of this option, Mr. Ngok also concluded exclusive sourcing arrangements of *ST* products with the Group. The right to exercise such an option empowers the Group to globalize its retailing network and exponentially increase growth in all aspects, and to become a brand owner. At the same time, these exclusive sourcing arrangements of *ST* products will continue to broaden the Group's supply chain revenue base, thereby further stimulating the Group's supply chain momentum.

Meanwhile, the new phase of the Group's Yangzhou production base began operation in February 2007. These supplementary facilities have strengthened the Group's dual operation model for production management whilst enhancing the Group's high-tech garment manufacturing techniques. To capture increased business opportunities for footwear products, the Group extended its supply chain service capabilities to include footwear items. With full customer support, the Group was empowered to achieve horizontal diversification of its product range. These efforts will fuel the Group's supply chain services for future growth.

Looking forward, the Group will continue to enhance its value added services to its customers, whilst integrating its supply chain services with its distribution and retailing businesses so as to ensure operational efficiency and cost-effectiveness. The Group will continue to seek opportunities to establish strategic alliances with renowned international brands to increase collaboration, thereby capitalising on China's immense potential.

Distribution and retailing

Driven by PRC's favorable business environment resulting from strong and sustained economic growth and its population's increased consumption power, the Group's distribution and retailing businesses recorded strong growth for the year. Revenue from the Group's distribution and retailing business reached HK$123.5 million, representing a 107.9% increase over last year. Gross margin also improved from 37.9% to 48.1%, as compared to last year. These increases were attributable to the Group's addition of the two fashion and luxury brands *Sisley* and *Moschino* to its multi-brand portfolio this year. This addition has notably improved the Group's gross margin.

With an emerging lifestyle focused PRC population, coupled with the backdrop of the Beijing Olympics mania, sports and sports-inspired apparel have gained huge popularity in the PRC, which led to the *Lotto* joint venture's sustained growth this year. The gross margin improved substantially from 38.5% last year to 48.2% in 2007. This improvement was attributable mainly to the increased sales generated from directly-managed shops, which usually enjoy higher gross margin, and the joint venture's increased sourcing within the PRC.

To stimulate strong brand awareness, the Group employed aggressive branding strategies for *Lotto* during the year. This included arrangements for global spokesman Luca Toni, a popular Italian world-cup champion, to visit Hong Kong in May 2007. The Group will continue to devote more resources to sports sponsorship and brand promotion activities in order to capitalize on the increased popularity of sports as a result of the Beijing Olympics, whilst simultaneously aiming for sustainable growth in sales at each point-of-sale.

During the year, the Group continued to expand *Lotto's* sales network, with a net increase of 45 points-of-sale. As at 31 December 2007, the *Lotto* joint venture had 110 points-of-sale including 25 directly-managed shops and 85 franchised shops throughout PRC's first and second tier cities. Going forward, the *Lotto* network expansion will continue in line with the joint venture's three-year shop opening schedule, with a target of 250 points-of-sale by the end of 2008.

In line with the change in strategy for *Stonefly* to focus solely on footwear, the performance of the *Stonefly* joint venture has improved significantly in its third year. The business achieved a turnaround, moving from a loss in 2006 to breakeven in the year under review. With the shift in emphasis from a combination of apparel and footwear to exclusively footwear, the average shop size of *Stonefly* could be reduced by half, substantially increasing sales per square meter and improving operational efficiency. The Group's increased local sourcing has also enhanced *Stonefly's* gross margin. In all, the gross margin for this joint venture improved from 37.8% to 44.0% this year.

As at 31 December 2007, the joint venture had 55 points-of-sale, including 15 directly-managed shops and 40 franchised shops throughout the PRC's first and second tier cities. There was a net increase of 21 points-of-sale during the year. The Group aims to achieve 100 points-of-sale by the end of 2008, focusing largely on franchised shops.

With strengthened product design via enhanced research and development, *Stonefly's* gross margin is expected to improve. At the same time, the Group will have increased flexibility in offering a much wider product range at competitive pricing.

During the year, the Group added two fashion and luxurious brands, *Sisley* and *Moschino*, to its growing portfolio.

Sisley, a brand with an edge on trendiness, is a great constituent of the Group's portfolio. *Sisley*'s bold, forceful collections, which are full of fashions ideas, have been setting an iconic trend for young dynamic Chinese women and men. Since the Group's establishment of the *Sisley* joint venture in 2006, the Group has successfully transferred, by August 2007, into this joint venture 40 *Sisley* shops, which were previously directly managed by the Benetton Group. This contributed significantly to the revenue of the Group's distribution and retailing business in the second half of 2007. Looking ahead, the *Sisley* network expansion will target the opening of 80 points-of-sale by 2008, of which all would be directly-managed shops. Coupled with the Group's consistent focus on local sourcing, this joint venture's gross margin will improve.

The Group's brand diversification was further enhanced when *Moschino* granted the Group a 10 year exclusive PRC distributorship licence for various *Moschino* product lines this year.

Historically, the Group had only achieved European brands' distributorship through the setting up of joint ventures. The current partnership with *Moschino*, wherein the Group is appointed *Moschino*'s exclusive PRC distributor, earmarks the Group's new chapter in distribution and retailing business. This exclusive distributorship appointment from a renowned fashion maison like *Moschino* exactly resounded the Group's acknowledged status within Europe.

In year 2007, 1 flagship store for *Moschino* was launched in Shanghai and 9 more stores are scheduled for opening in the PRC in 2008. To date, the sales for *Moschino* has already exceeded its business plan. Given such successful launch, the Group is exceptionally bullish on future growth as leveraged on this brand.

In early 2008, the Group has completed its purchase from Mariella S.r.L. ("Mariella") of the *Bond Street* business. With almost 25 years of history, the brands *Bond Street* and *Bond Street Collection* are stylish prêt-a-porter collections collaborated by prestigious garment stylists, whilst integrating great spans of designs and models using high-level Italian fabrics.

To capture additional funding in face of vast expansion, especially in the distribution and retailing sector, the Group has, through restructuring, further consolidated the Group's retailing platform, and has, in December 2007, successfully invited a member of the New World group to become a strategic investor to hold a 16.77% convertible preferential shareholding within such distribution and retailing platform. This raised an additional HK$90.1 million (after deducting all related expenses) for such distribution and retailing platform's working capital.

In 2007, the Group's business model is further fine-tuned to gain a higher leverage on the synergy between the Group's well-honed supply chain services and its expanding distribution and retailing business. The Group will continue with its landmark business integration to achieve greater efficiencies and synergies to add best values to customers and shareholders.

Operating expenses

In 2007, the Group's distribution and selling expenses significantly increased by 154.4% to HK$63.5 million, as compared to last year, which as a percentage of revenue, increased from 4.1% to 6.1%. This substantial increase was principally attributable to the increased custom duties, freight and insurance charges derived from the Group's supply chain services as well as the Group's vastly expanding distribution and retailing businesses. Retailing attracts a higher selling expense component, as compared to supply chain services, because retailing includes also advertising, sponsorship and promotional expenses, salaries and benefits of sales staff, rental and renovation expenses of retail stores as well as transportation and logistics expenses.

The Group's administrative expenses increased by 55.2% from HK$86.4 million to HK$134.1 million. This increase is mainly attributable to its increased share option expenses and listing & compliance related costs (namely, legal and professional fees). Higher expenses in staff salaries and emoluments also contributed to the increase in administrative expenses, since human resources have to be increased in line with the Group's sizeable expansion. Extra depreciation regarding the Group's back-up offices has also increased administrative expenses. Amidst vast expansion, the Group can better leverage on the economies of scale, which saw the Group's achievement of sizeable operational efficiency. Paired with astute expenditure management, the Group's administrative expenses, which as a percentage of revenue, decreased from 14.1% last year to 12.9% this year, earmarking the Group's improved efficiency.

Finance costs

Finance costs increased by 74.2% to HK$40.5 million, as compared to last year. This substantial increase is mainly attributable to the Group's increased bank borrowings which is necessitated to finance the Group's vast expansion. The Group still maintains a high working capital demand, given it is in the peak of its development cycle.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2007, the Group had cash and bank balances of HK$474.1 million, primarily denominated in RMB and HK dollars, (31 December 2006: HK$238.4 million), and total bank borrowings of HK$683.7 millions, (31 December 2006: HK$392.7 million), of which 62.4% constitute short-term bank borrowings and 37.6% long-term bank borrowings. The Group's bank borrowings was primarily denominated in RMB, HK dollars and US dollars. As at 31 December 2007, 26.8%, 53.8%, and 19.1% of the Group's total bank borrowings were denominated in RMB, HK dollars and US dollars, respectively, with 7.0% of the total bank borrowing subject to fixed interest rates and 93.0% subject to floating interest rates.

The net gearing ratio, which is calculated on the basis of total bank borrowings (net of cash and bank balances) over the Group's total shareholders' equity, decreased from 0.45 as at 31 December 2006 to 0.36 as at 31 December 2007. The current ratio, which is calculated on the basis of current assets over current liabilities, increased from 1.53 as at 31 December 2006 to 1.74 as at 31 December 2007.

The interest coverage for this year, expressed as a quotient of EBITDA over interest expenses, was 4.6, which is considered a comfortable level.

During this year, the Group actively managed financial risks and continuously readjusted its financial position. The Group had, on 27 March 2007, obtained a three-year syndicated term loan and revolving credit facility in the amount of HK$200 million. The loan bears interest rate of 155 basis points over HIBOR. The syndicated term loan is repayable in installments over the three-year period. The proceeds are mainly designated as general working capital. In July 2007, the Group raised HK$99.0 million (after deducting all related expenses) via the issuance of 23,800,000 new shares at HK$4.29 each. These net proceeds are designated to back-up the Group's further acquisition opportunities and as working capital to, inter alia, enable the Group's further development and expansion of business. As previously disclosed, the Group has through restructuring, further consolidated the Group's retailing platform by successfully invited the New World group to become a strategic investor thereby raising the additional funds of HK$90.1 million (after deducting all related expenses), which amount is classified as a long-term liability and is represented as convertible redeemable preference shares in the consolidated balance sheet.

FOREIGN EXCHANGE EXPOSURE

The Group's sales were mostly denominated in US dollars and RMB, while the purchase and operating expenses were mostly denominated in RMB and HK dollars. Although the Group's exposure to RMB and US dollars fluctuation is balanced by RMB receipt from its PRC distribution and retail sales and US dollar receipt from its supply chain services, the Group's PRC distribution and retail sales are still small compared to its supply chain related export sales. To minimize possible foreign currency fluctuation related loss and maximize possible RMB appreciation profit, the Group adopts stringent internal hedging policies, which, during the year, had the strategy of holding the Group's majority monetary assets in RMB. Going forward, such strategy shall be adapted to pave way for the Group to increasingly receive Euro (instead of US dollar) from its supply chain related customers. During the year, the Group has adopted no formal hedging policies and no instruments have been applied for foreign currency hedging purposes. The management will continue to monitor the foreign exchange exposure flexibly and engage in timely and appropriate hedging activities when needed.

Thus, the Group will continue to be exposed to foreign currency exchange risks, although material currency fluctuation related operational impact is not anticipated to take place in future.

CHARGES ON ASSETS

As at 31 December 2007, the Group's bank deposits of HK$48.1 million, available-for-sale securities of HK$6.0 million, property, plant and equipment with an aggregate net book value of HK$145.6 million, and land use rights with an aggregate net book value of HK$31.5 million were pledged to secure general banking facilities and bank borrowings granted to the Group.

CAPITAL COMMITMENT

As at 31 December 2007, the Group had capital commitment of HK$59.6 million in respect of acquisition of property, plant and equipment, which were contracted for but not provided in the consolidated financial statements.

CONTINGENT LIABILITIES

As at 31 December 2007, the Group had contingent liabilities of HK$70.2 million in respect of a guarantee given to a bank in connection with banking facilities granted to a third party.

EMPLOYMENT INFORMATION

As at 31 December 2007, the Group had about 2,570 employees in total, stationed mainly in the PRC, Hong Kong and Europe. The Group's emolument policies, which are reviewed periodically, are linked to the performance of individual employees and are based on salary trends prevailing in the aforesaid regions.

In addition, the Group maintains a share option scheme for the purpose of providing incentives and rewards to eligible participants based on their contributions.

DIVIDEND

The Board recommends a final dividend of HK7.0 cents per share, payable on 23 June 2008 to the shareholders whose names appear on the register of members of the Company on 27 May 2008. The proposed dividend, together with the interim dividend of HK3.0 cents per share paid on 1 November 2007, gives a total dividend of HK10.0 cents per share for the year.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 22 May 2008 to 27 May 2008 (both days inclusive), during which period no transfer of shares can be registered. To qualify for the final dividend, payable on 23 June 2008, to be approved at the forthcoming annual general meeting of the Company, shareholders must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 pm. on 21 May 2008.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board believes that high standards of corporate governance are essential to the success of the Company and is committed to maintain a high level of corporate governance standards and practices. The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the year ended 31 December 2007.

In addition, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors. The Company has made specific enquiries with all its directors regarding any non-compliance with the Model Code, and all the Directors confirmed that they have fully complied with the required standards as set out in the Model Code since the Company's listing.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2007, including the accounting principles and practices adopted by the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

PUBLICATION OF FINAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

This results announcement is published on the website of the Stock Exchange. The annual report for the year ended 31 December 2007 will be dispatched to shareholders and published on the website of the Stock Exchange in due course.

By order of the Board
Hembly International Holdings Limited
NGOK Yan Yu
Chairman

Hong Kong, 15 April 2008

As at the date of this announcement, the Board of the Company comprises six executive directors, namely, Mr. Ngok Yan Yu, Mr. Lam Hon Keung, Keith, Ms. Tang Chui Yi, Janny, Mr. Wong Ming Yeung, Ms. Tang Wai Ha and Mr. Marcello Appella; two non-executive directors, namely, Mr. Antonio Piva and Mr. Je Kin Ming; three independent non-executive directors, namely, Mr. Lo Ming Chi, Charles, Mr. Pao Ping Wing and Mr. Kwan Hung Sang, Francis.