THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Hembly International Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of Hembly International Holdings Limited.

HEMBLY

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: 03989)

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION RELATING TO THE DISPOSAL OF A SUBSIDIARY

Financial Adviser to the Company

AmCap
Ample Capital Limited
豐盛融資有限公司

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

信達國際融資有限公司
CINDA INTERNATIONAL CAPITAL LIMITED

A letter from the Independent Board Committee (as defined in this circular) is set out on page 14 of this circular. A letter from Cinda International Capital Limited, the Independent Financial Adviser (as defined in this circular), containing its advice to the Independent Board Committee and the Independent Shareholders (as defined in this circular) is set out on pages 15 to 24 of this circular.

A notice convening the EGM (as defined in this circular) to be held at 10:00 a.m. on Wednesday, 13 May 2009, at 36th Floor, 1 Hung To Road, Kwun Tong, Hong Kong is set out on pages 152 to 153 of this circular. Whether or not you are able to attend and vote at the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be) to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish.

24 April 2009

CONTENTS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

"Affiliates"	(a) in the case of a person which is a body corporate, any subsidiary or parent company of that person and any subsidiary of any such parent company, in each case from time to time; (b) in the case of a person which is an individual, any spouse, co-habitee and/or lineal descendants by blood or adoption or any person or persons acting in its or their capacity as trustee or trustees of a trust of which such individual is the settler; (c) in the case of a person which is a limited partnership, the partners of the person or their nominees or a nominee or trustee for the person, or any investors in a fund which holds interests, directly or indirectly, in the limited partnership; (d) and any Affiliate of any person in (a) to (c)
"Agreement"	the conditional sale and purchase agreement dated 3 December 2008 entered into by the Seller, the Purchaser and the Company in relation to the sale and purchase of the Sale Shares
"All Field"	All Field Investments Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of NWD
"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	board of Directors
"Business Day"	a day (other than a Saturday or Sunday) on which banks are open for general business in Hong Kong
"Cinda" or "Independent Financial Adviser"	Cinda International Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal
"Company"	Hembly International Holdings Limited, a limited liability company incorporated in the Cayman Islands, the Shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Agreement

"Completion Date"	one Business Day after the Seller's receipt of the Purchaser's written confirmation of its satisfaction of the Conditions (such date not being later than the Long Stop Date)
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Conditions"	conditions precedent to Completion as more particularly described under the paragraph headed "Conditions" in the section "Letter from the Board" of this circular
"Consideration"	HK$100,000,000, being the total amount of consideration for the sale and purchase of the Sale Shares
"Director(s)"	director(s) of the Company
"Disposal"	the disposal by the Seller of the Sale Shares to the Purchaser pursuant to the Agreement
"EGM"	an extraordinary general meeting of the Company to be convened and held on 10:00 a.m. Wednesday, 13 May 2009 for approving, among other things, the Disposal
"Government Entity"	any supra-national, national, state, municipal or local government (including any subdivision, court, administrative agency or commission or other authority thereof) or any quasi-governmental or private body exercising any regulatory, taxing, importing or other governmental or quasi-governmental authority, including the Stock Exchange and the Securities and Futures Commission
"Group"	the Company and its subsidiaries
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board comprising all the independent non-executive Directors, namely, Mr. Lo Ming Chi, Charles, Mr. Pao Ping Wing and Mr. Kwan Hung Sang, Francis
"Independent Shareholders"	Shareholders other than Smart Fame and its associates
"Latest Practicable Date"	21 April 2009, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining and collating certain relevant information contained herein

"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	(a) 28 February 2009; or (b) such other date as the parties to the Agreement may at any time and from time to time agree in writing, which has been extended to 31 May 2009 pursuant to agreements in writing signed by the Seller, the Purchaser and the Company
"Material Adverse Effect"	with respect to Well Metro or any of its subsidiaries, a material adverse effect on the business or financial condition of the Well Metro Group taken as a whole but excluding any event or series of events, in the nature of force majeure, including earthquake, typhoon, flood, or other acts of nature or acts of God, fire, flooding, explosions, civil commotion, acts of government, declaration of a national or international emergency or war, calamity, crisis, economic sanction, riot, outbreak or escalation of hostilities or any other acts of war (whether or not war is declared) or terrorism (whether or not responsibility has been claimed)
"NWD"	New World Development Company Limited, a company incorporated in Hong Kong with limited liability and whose shares are listed on the Main Board of the Stock Exchange
"PRC"	the People's Republic of China and for the purpose of this circular shall exclude Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
"Property"	Room No. 101 on Level 1 and the whole of Levels 2 to 5, No. 270 Wu Song Road, Yaojiang Centre, Hongkou District, Shanghai Municipality, PRC which is held by the Well Metro Group
"Purchaser"	Luxba Group Limited (formerly known as Primewill Investments Limited), a company incorporated in the British Virgin Islands
"Remaining Group"	the Company and its subsidiaries immediately after Completion
"Sale Shares"	7,500 common shares with a par value of US$1.00 each in the share capital of Well Metro
"Seller"	Spring Castle Group Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company

"Share(s)"	ordinary share(s) of HK$0.10 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Smart Fame"	Smart Fame Holdings Limited, a company incorporated in the British Virgin Islands with limited liability
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiaries"	has the meaning ascribed to it under the Listing Rules
"Substantial Shareholder"	has the meaning ascribed to it under the Listing Rules
"Valuer"	GA Appraisal Limited, an independent firm of qualified professional property valuers
"Well Metro"	Well Metro Group Limited, a company incorporated in the British Virgin Islands with limited liability and the entire issued share capital of which is held as to 83.33% by the Seller and as to 16.67% by All Field, as at the Latest Practicable Date
"Well Metro Group"	Well Metro and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.

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: 03989)

Executive directors:
Ngok Yan Yu *(Chairman)*
Lam Hon Keung, Keith
Tang Chui Yi, Janny
Wong Ming Yeung
Marcello Appella

Non-executive directors:
Antonio Piva
Je Kin Ming

Independent non-executive directors:
Lo Ming Chi, Charles
Pao Ping Wing
Kwan Hung Sang, Francis

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business:
36th Floor
No.1 Hung To Road
Kwun Tong
Kowloon
Hong Kong

24 April 2009

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION RELATING TO THE DISPOSAL OF A SUBSIDIARY

INTRODUCTION

As announced by the Company in the announcement dated 3 December 2008, the Seller, the Purchaser and the Company entered into the Agreement, pursuant to which the Seller has agreed to sell and the Purchaser has agreed to purchase the Sale Shares, for an aggregate cash consideration of HK$100,000,000, subject to the satisfaction of the Conditions.

Pursuant to the Agreement, the Company as guarantor has unconditionally and irrevocably undertaken and guaranteed, as a continuing obligation, to the Purchaser the due and punctual performance, observance and compliance by the Seller of its obligations in the Agreement and other documents in connection with the Disposal.

The Purchaser is an associate of NWD, which in turn beneficially owns the entire issued share capital of All Field, a Substantial Shareholder Well Metro. The Purchaser is accordingly a connected person of the Company and the Disposal constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the Disposal under Rule 14.07 of the Listing Rules exceed 75%, the Disposal also constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules. Pursuant to the Listing Rules, the Disposal is subject to the approval by the Independent Shareholders at a general meeting of the Company and the EGM will be convened for such purpose. Smart Fame, which is an associate of NWD and interested in 15,199,320 Shares, representing approximately 3.58% of the total issued share capital of the Company as at the Latest Practicable Date, is required to abstain from voting on the resolution in respect of the Disposal at the EGM. The voting to be taken in the EGM to seek approval of the Disposal will be taken by poll.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Lo Ming Chi, Charles, Mr. Pao Ping Wing, and Mr. Kwan Hung Sang, Francis, has been formed to give recommendation to the Independent Shareholders in relation to the Agreement.

Cinda has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Agreement is on normal commercial terms and in the ordinary course of business of the Group and whether the terms of the Agreement is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

The purpose of this circular is to provide you with, among other things, (i) details of the Agreement; (ii) information on the transactions contemplated thereunder including the Disposal; (iii) the recommendations of the Independent Board Committee in respect of the Agreement; (iv) the advice of Cinda in respect of the terms of the Agreement; (v) financial information on the Group; (vi) pro forma financial information of the Remaining Group; (vii) a valuation report on the Property; and (viii) the notice of EGM.

THE AGREEMENT

Date

3 December 2008

Parties

Seller	:	Spring Castle Group Limited (a wholly-owned subsidiary of the Company)
Purchaser	:	Luxba Group Limited (formerly known as Primewill Investments Limited), further information of which is set out in the paragraph headed "Information on the Purchaser" below
Guarantor	:	the Company

Assets to be disposed of

The Sale Shares, which represent approximately 83.33% of the issued share capital of Well Metro.

Consideration

The aggregate consideration for the Disposal is HK$100,000,000. The Consideration was agreed by the parties after arm's length negotiations with reference to the price earning ratio and the net asset value of the Well Metro Group as at 30 September 2008.

The Consideration is to be satisfied by the Purchaser in the following manner:

(a) as to HK$50,000,000 (or its US$ equivalent) (the "**First Deposit**") shall be paid by way of electronic transfer for same day value upon signing of the Agreement;

(b) as to HK$30,000,000 (or its US$ equivalent) (the "**Second Deposit**") shall be paid by electronic transfer for same day value upon completion of satisfactory due diligence findings by the Purchaser on the Well Metro Group; and

(c) as to HK$20,000,000 (or its US$ equivalent), being the remaining balance of the Consideration, shall be paid by electronic transfer for same day value on Completion.

If Completion does not take place by the Completion Date or is not capable of taking place for any reason, notwithstanding any rights that the Seller may have, the Seller shall promptly (and in any event within two Business Days of the event giving rise to Completion not taking place or not being able to take place) refund to the Purchaser the First Deposit and, if the Second Deposit has been paid, the Second Deposit in full in immediately available funds by telegraphic transfer for same day value in Hong Kong dollars or United States dollars (as the case may be), without any claims on the Seller's part for any set-off or counter claim.

Conditions

Completion is conditional upon the satisfaction of the following Conditions:

(a) the Company having obtained the approval of the Independent Shareholders in the EGM for the Disposal in accordance with the requirements of the Listing Rules;

(b) the Purchaser being satisfied as to its due diligence findings of the Well Metro Group and whose satisfaction shall be communicated directly to the Seller in writing;

(c) no event, circumstance, effect, occurrence or state of affairs or any combination thereof arising or occurring on or after the date of the Agreement which has, or may have, a Material Adverse Effect to the business, operations, assets, financial condition or prospects of a member of the Well Metro Group;

(d) all consents, licenses, approvals or actions of any Governmental Entity in any such jurisdiction required to be obtained or made prior to Completion have been obtained or made in a manner satisfactory to the Purchaser;

(e) the delivery to the Purchaser of written consents (in form and substance satisfactory to the Purchaser) from Stonefly S.p.A, Moschino S.p.A and any of their respective Affiliates consenting to the sale of the Sale Shares and agreeing to continue their respective business relationships with the relevant member of the Well Metro Group and agreeing not to exercise any right of termination in respect of any agreement governing their respective business relationships with the relevant member of the Well Metro Group by reason of the sale and purchase under the Agreement;

(f) the delivery to the Purchaser of original documentary evidence showing to the satisfaction of the Purchaser (as determined by the Purchaser in its absolute and unfettered discretion) that the Company owns the brand of "Bond Street";

(g) the settlement in full of all of (i) the amounts due to or due from the Company (or its Affiliates) as at Completion; (ii) trust receipt loan and short term loan due to any banking, financial, lending or other similar institution or organisation, the payment due date of which falls on or before 31 December 2008; and (iii) overdue trade payable whose payment due date falls on or before 31 December 2008 (collectively "**Debt**"), of all members of the Well Metro Group to the satisfaction of the Purchaser (as determined by the Purchaser in its absolute and unfettered discretion) such that no member of the Well Metro Group has any unpaid or unsettled Debt as at Completion; and

(h) completion of the transfer or assignment in full of (i) all the retail outlets, stores inventories, assets, liabilities (whether contingent or otherwise) and commitments of any member of the Well Metro Group that relate to the distribution of the products under the brand of "Sisley" and (ii) the construction-in-progress and land use rights relating to the land and property situated at Bali Town, Yangzhou Economy Development Zone, the PRC owned by a member of the Well Metro Group, in each case at a consideration not less than its net asset value as at the date of the latest management accounts of the relevant member of the Well Metro Group and to entity (not being a member of the Well Metro Group or any entity that is controlled by any member of the Well Metro Group) to the satisfaction of the Purchaser (as determined by the Purchaser in its absolute and unfettered discretion).

With regards to condition (e) above, the relevant members of the Well Metro Group have previously entered into licensing agreements with Stonefly S.p.A and Moschino S.p.A respectively, which contain restrictive covenants prohibiting any change of shareholding of Well Metro and/or members of the Well Metro Group unless written consents from Stonefly S.p.A and Moschino S.p.A have been obtained. As breach of these covenants may result in the termination of the licensing agreements, written consents are therefore required to ensure continuing business relationship between the relevant members of the Well Metro Group and Stonefly S.p.A and Moschino S.p.A respectively after Completion.

At any time on or before 11:59 p.m. on the Long Stop Date, any Condition (except condition (a) above) may be waived in writing by the Purchaser only.

If the Conditions have not been satisfied or waived on or before 11:59 p.m. on the Long Stop Date, the Agreement shall automatically terminate and be deemed void and of no effect without any of the parties being liable to any other party in any way whatsoever (except in respect of any rights and liabilities which have accrued before termination) and neither the Seller nor the Purchaser shall be obliged to complete the sale and purchase of the Sale Shares pursuant to the Agreement.

As at the date of this Circular, the above conditions (f) and (g) have been satisfied and condition (e) above has not been fulfilled.

Seller's undertakings

Under the Agreement, the Seller has undertaken to the Purchaser that there will not be any leakage events, other than the permitted leakage events between the date of the Agreement and the Completion Date. Leakage events include, among other things, (i) in the case where the unaudited or, where applicable, audited net asset value of Well Metro as at the Completion Date is lower than HK$142,527,000; and (ii) certain payments made by any member of the Well Metro Group to, or for the benefit of the Seller or any of its Affiliates including, among other things, any dividend or distribution and any management, services or other charges or fees. The Seller has also undertaken to the Purchaser that, if there is a breach of any of such no leakage undertakings by it or any of its Affiliates, it shall pay or procure payment to the Purchaser in cash on the Purchaser's demand a sum equal to the aggregate of (i) the amount which would be necessary to put the relevant member of the Well Metro Group into the financial position which would have existed had there been no breach of the undertaking; and (ii) all costs suffered or incurred by the Purchaser or any of its Affiliates in connection with the breach.

Completion

Completion shall take place at 10:00 a.m. on the Completion Date.

Guarantee and indemnity

Pursuant to the Agreement, the Company as guarantor has unconditionally and irrevocably undertaken and guaranteed, as a continuing obligation, to the Purchaser, among other things, (a) the due and punctual performance, observance and compliance by the Seller of its obligations in the Agreement and other documents in connection with the Disposal; and (b) to indemnify the Purchaser against the losses, damages, costs and expenses of collecting any amount payable by the Seller.

Purchaser's right to terminate

The Purchaser may terminate the Agreement by notice to the Seller and the Company at any time before Completion if an event which may have a Material Adverse Effect, a material breach of any warranty given in the Agreement, or any material breach by the Seller of its obligations under the Agreement, arises or occurs at any time before Completion.

INFORMATION ON THE PURCHASER

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Purchaser is (i) a company incorporated in the British Virgin Islands and principally engaged in investment holding; and (ii) an associate of NWD, which in turn beneficially owns the total issued share capital of All Field, a substantial shareholder (within the meaning ascribed thereto in the Listing Rules) of Well Metro. Accordingly, the Purchaser is a connected person of the Company.

INFORMATION ON THE WELL METRO GROUP

Well Metro is an investment holding company. As at the Latest Practicable Date, Well Metro had in issue 7,500 common shares with a par value of US$1.00 each, all of which were owned by the Seller, and 1,500 convertible preferred shares with a par value of US$1.00 each, all of which were owned by All Field.

The Well Metro Group is principally engaged in the business of distribution and retailing of apparel and accessories in the PRC.

Based on the consolidated management accounts of Well Metro prepared using Hong Kong Financial Reporting Standards and included in the audited consolidated accounts of the Group, (a) the consolidated profit before taxation of Well Metro for the year ended 31 December 2007 was approximately HK$16,311,000, whilst the consolidated profit before taxation of Well Metro for the year ended 31 December 2008 was approximately HK$30,102,000; (b) the consolidated profit after taxation of Well Metro for the year ended 31 December 2007 was approximately HK$10,417,000, whilst the consolidated profit after taxation of Well Metro for the year ended 31 December 2008 was approximately HK$26,871,000; and (c) the consolidated net asset value of Well Metro as at 31 December 2008 was approximately HK$144,030,000.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Group is principally engaged in the provision of supply chain services for its supply of apparel and accessories to international brand apparel makers and the distribution and retailing of apparel and footwear.

The Directors are of the view that in the light of the recent global credit crunch and looming global recession, it is of paramount importance that the Group should exercise stringent control of its financial resources at hand. Having appraised the Group's principal business focus in managing the supply chain services and that of Well Metro (i.e., business of distribution and retailing of apparel and accessories in the PRC), the Directors also consider that at these difficult times, it is not in the best interest to devote valuable time and financial resources to the Well Metro Group, which would in turn divert the Group's resources in its principal business of the Group as aforesaid and to cope with the challenges that lie ahead. The Company considers that the Disposal, will realize its investment in the Well Metro Group for adequate proceeds to enhance the liquidity of the Group and enable the Group to focus on its principal engagement in the provision of supply chain services for apparel and accessories to international brand apparel makers.

The Directors (including the Independent Board Committee after taking into account of the opinion of the Independent Financial Adviser) consider that the terms of the Agreement are fair and reasonable and the Disposal is in the interests of the Company and the Shareholders as a whole.

The proceeds from the Disposal will be used for general working capital of the Group.

FINANCIAL EFFECTS OF THE DISPOSAL

The Company expects to record a gain on disposal of approximately HK$28,488,000 as explained under note 4 to the "Unaudited pro forma consolidated balance sheet" in Appendix II to this circular, assuming the Disposal was completed on 31 December 2008, after the impairment loss of HK$64,830,000 provided during 2008.

Upon Completion, the Company will cease to hold any interests in Well Metro, which will cease to be a subsidiary of the Company. The results of the Well Metro Group will no longer be consolidated into the Group's accounts.

Assets and liabilities

Based on the "Unaudited pro forma consolidated balance sheet" as set out in Appendix II to this circular, the Group had audited total assets and total liabilities of approximately HK$1,644,243,000 and HK$1,061,973,000 respectively as at 31 December 2008. Upon Completion, the Remaining Group would have unaudited pro forma total assets and total liabilities of approximately HK$1,540,665,000 and HK$954,438,000 respectively.

Earnings

Based on the "Unaudited pro forma consolidated income statement" as set out in Appendix II to this circular, the Group had audited revenue and net profit attributable to equity holders of the Company of approximately HK$1,356,445,000 and HK$7,798,000 respectively for the year ended 31 December 2008. Assuming the Disposal was completed on 1 January 2008, the Remaining Group would have unaudited pro forma revenue and net profit attributable to equity holders of the Company of approximately HK$1,115,630,000 and HK$27,501,000 respectively. For want of clarity, the net profit attributable to equity holders of the Company of approximately HK$27,501,000 as disclosed above is based on the assumption that the Disposal had taken place on 1 January 2008 and inclusive of the loss on disposal of the Disposal of approximately HK$16,481,000 as stated in the section headed "Unaudited Pro Forma Consolidated Income Statement" within Appendix II of this Circular.

IMPLICATIONS UNDER THE LISTING RULES

The Purchaser is an associate of NWD, which in turn beneficially owns the entire issued share capital of All Field, a Substantial Shareholder of Well Metro. The Purchaser is accordingly a connected person of the Company and the Disposal constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the Disposal under Rule 14.07 of the Listing Rules exceed 75%, the Disposal also constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules. Pursuant to the Listing Rules, the Disposal is subject to the approval by the Independent Shareholders at a general meeting of the Company and the EGM will be convened for such purpose. Smart Fame, which is an associate of NWD and interested in 15,199,320 Shares, representing approximately 3.58% of the total issued share capital of the Company as at the Latest Practicable Date, is required to abstain from voting on the resolution in respect of the Disposal at the EGM. The voting to be taken at the EGM to seek approval of the Disposal will be taken by poll.

EGM

Your attention is drawn to pages 152 to 153 of this circular where you will find a notice of the EGM to be convened and held at 10:00 a.m. on Wednesday, 13 May 2009 at 36th Floor, 1 Hung To Road, Kwun Tong, Hong Kong. At the EGM, a resolution will be put forward to the Independent Shareholders to approve the Agreement. Voting on this resolution will be by poll.

Smart Fame, which is an associate of NWD, together with any of its associates, will abstain from voting on the resolutions to be proposed at the EGM to approve the Agreement. To the best of the knowledge of the Directors, and having made reasonable enquiries, no Shareholder, save for Smart Fame (and its associates), is required to abstain from voting on the resolutions in respect of the Disposal at the EGM.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend the EGM in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event, not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

RECOMMENDATIONS

The Board considers that the terms of the Agreement and the transactions contemplated thereunder including the Disposal are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM.

The Independent Board Committee comprising all of the three independent non-executive Directors has been established to give recommendations to the Independent Shareholders on the terms of the Agreement. Having considered the advice of Cinda set out on pages 15 to 24 of this circular, the Independent Board Committee is of the view that the terms of the Agreement and the transactions contemplated thereunder including the Disposal are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Furthermore, the Independent Board Committee also considers that the Agreement is on normal commercial terms and in the ordinary course of business of the Group. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Agreement.

The letter of advice from Cinda is set out on pages 15 to 24 of this circular.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By the order of the Board of
Hembly International Holdings Limited
Ngok Yan Yu
Chairman

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: 03989)

24 April 2009

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND
CONNECTED TRANSACTION
RELATING TO THE DISPOSAL OF A SUBSIDIARY

We refer to the circular to the Shareholders dated 24 April 2009 (the "**Circular**") of which this letter forms part of. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

The Independent Board Committee has been formed to give recommendations to the Independent Shareholders on the terms of the Agreement and the transactions contemplated thereunder including the Disposal. Cinda International Capital Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the "Letter from Cinda" as set out on pages 15 to 24 of the Circular. We have considered the terms and conditions of the Agreement, the advice of Cinda and the other factors contained in the "Letter from the Board" as set out on pages 5 to 13 of this Circular.

In our opinion, the terms of the Agreement and the transactions contemplated thereunder including the Disposal are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We also consider that the Agreement is on normal commercial terms and in the ordinary course of business of the Group. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Agreement.

Yours faithfully,
For and on behalf of the Independent Board Committee

Lo Ming Chi, Charles	**Pao Ping Wing**	**Kwan Hung Sang, Francis**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of a letter of advice from Cinda to the Independent Board Committee and the Independent Shareholders for the purpose of inclusion in this circular:

信達國際融資有限公司
CINDA INTERNATIONAL CAPITAL LIMITED

45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

24 April 2009

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION RELATING TO THE DISPOSAL OF A SUBSIDIARY

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the Agreement, details of which are contained in the Letter from the Board ("the **Letter from the Board**") contained in the circular (the "**Circular**") of the Company to the Shareholders dated 24 April 2009, of which this letter forms part. Terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

On 3 December 2008, the Seller, the Purchaser and the Company entered into the Agreement, pursuant to which the Seller has agreed to sell and the Purchaser has agreed to purchase the Sale Shares, for an aggregate cash consideration of HK$100,000,000, subject to the satisfaction of the Conditions. Pursuant to the Agreement, the Company as guarantor has unconditionally and irrevocably undertaken and guaranteed, as a continuing obligation, to the Purchaser the due and punctual performance, observance and compliance by the Seller of its obligations in the Agreement and other documents in connection with the Disposal.

The Purchaser is an associate of NWD, which in turn beneficially owns the entire issued share capital of All Field, a substantial shareholder (within the meaning ascribed thereto in the Listing Rules) of Well Metro. The Purchaser is accordingly a connected person of the Company and the Disposal constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the Disposal under Rule 14.07 of the Listing Rules exceed 75%, the Disposal also constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules. Pursuant to the Listing Rules, the Disposal is subject to the approval by the Independent Shareholders at a general meeting of the Company and the EGM will be convened for such purpose. The voting to be taken in the EGM to seek approval of the Disposal will be taken by poll. Smart Fame, which is an associate of NWD and interested in 15,199,320 Shares, representing approximately 3.58% of the total issued share capital of the Company as at the Latest Practicable Date, is required to abstain from voting on the resolution in respect of the Disposal at the EGM.

The Independent Board Committee comprising Mr. Lo Ming Chi, Charles, Mr. Pao Ping Wing and Mr. Kwan Hung Sang, Francis, all being independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether or not the terms of the Agreement (and the transactions contemplated thereunder) are fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

The principal factors and reasons that we have taken into consideration in assessing the Agreement and arriving at our opinion are set out as follows:

1. Background

The Group

The Group is principally engaged in the provision of supply chain services for its supply of apparel and accessories to international brand apparel makers and the distribution and retailing of apparel and footwear.

Set out below is a summary of the turnover of the Group by segment as extracted from the published financial statements and annual results announcement of the Company:

	For the year ended 31 December					
	2006		2007		2008	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
Supply chain services	551,924	90.3	913,424	88.1	1,094,892	80.7
Distribution and retailing	59,406	9.7	123,532	11.9	261,553	19.3
Total	611,330	100.0	1,036,956	100.0	1,356,445	100.0

As illustrated in the table above, turnover of the Group during the three years ended 31 December 2008 was mainly generated from the sector of supply chain services.

The Well Metro Group

As stated in the Letter from the Board, Well Metro is an investment holding company. As at the Latest Practicable Date, Well Metro had in issue 7,500 common shares with a par value of US$1.00 each, all of which were owned by the Seller, and 1,500 convertible preferred shares with a par value of US$1.00 each, all of which were owned by All Field. The Well Metro Group is principally engaged in the business of distribution and retailing of apparel and accessories in the PRC.

Set out below is a summary of the consolidated management accounts (the "**Management Accounts**") of Well Metro prepared using Hong Kong Financial Reporting Standards:

	For the year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Profit/(loss) before taxation	(906)	16,311	30,102
Profit/(loss) after taxation	(900)	10,417	26,871

	As at 31 December 2008
	HK$'000
Net asset value	144,030

As depicted by the above table, the Well Metro Group showed a turnaround in earnings in 2007 after a loss reported in 2006 and recorded further growth in earnings in 2008. However, as advised by the management of the Company, as a result of the financial tsunami in the last quarter of 2008, the business of the Well Metro Group was adversely affected. We note from the Management Accounts of Well Metro that the profit before taxation for the year ended 31 December 2008 included several non-operating items (the "Non-operating Items") comprising gain on disposal of a subsidiary, gain on disposal of a jointly controlled entity and gain on change in fair value of conversion option derivative liability, which totaled approximately HK$36,451,000 and interest on convertible redeemable preference shares of approximately HK$11,221,000. Such kinds of income and expense were not recorded in 2006 and 2007. Without the Non-operating Items, profit of the Well Metro Group shall be reduced substantially in 2008.

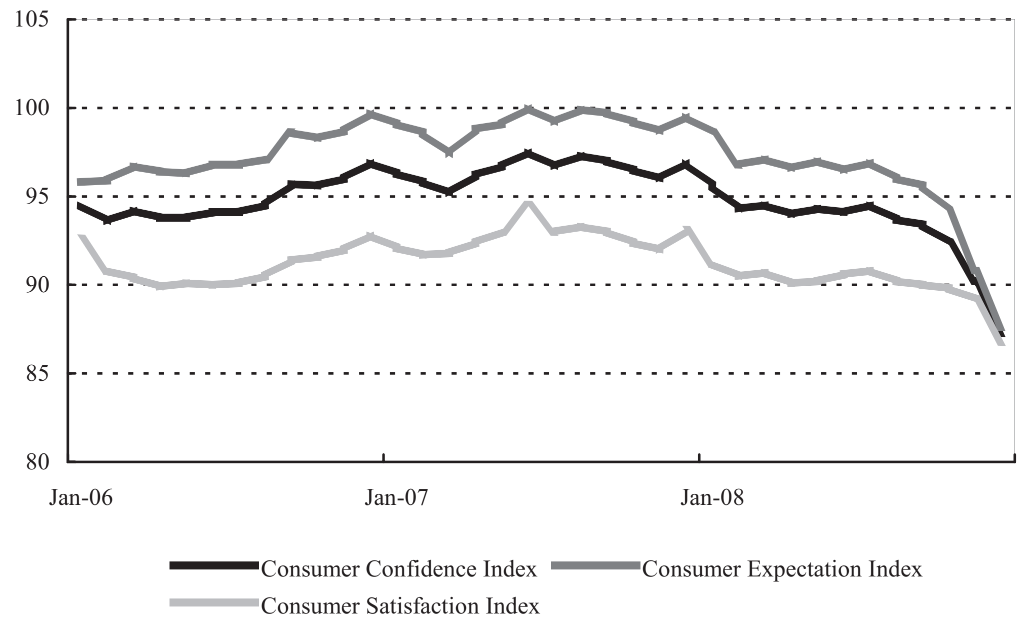
2. Reasons for the Disposal

As stated in the Letter from the Board, the Directors are of the view that in the light of the recent global credit crunch and looming global recession, it is of paramount importance that the Group should exercise stringent control of its financial resources at hand. Having appraised the Group's principal business focus in managing the supply chain services and that of Well Metro (i.e., business of distribution and retailing of apparel and accessories in the PRC), the Directors also consider that at these difficult times, it is not in the best interest to devote valuable time and financial resources to the Well Metro Group, which would in turn divert the Group's resources in its principal business of the Group as aforesaid and to cope with the challenges that lie ahead. The Company considers that the Disposal will realize its investment in the Well Metro Group for adequate proceeds to enhance the liquidity of the Group and enable the Group to focus on its principal engagement in the provision of supply chain services for apparel and accessories to international brand apparel makers.

Based on our discussion with the management of the Company, we understand that since the second half of 2008, the business of the Group has been adversely affected by the worldwide financial turmoil and such impact on the distribution and retailing is larger than that on the supply chain services. The Well Metro Group faces great pressure and threats brought along by the recent market meltdown. We have been advised that the cash management of distribution and retailing business is difficult to be controlled and estimated. Compared with the supply chain business, the distribution and retailing business has higher cashflow requirement. The distribution and retailing business requires (i) continuous keeping of inventory; (ii) higher selling expense component such as advertising and promotional expenses, salaries and benefits of sales staff, rental and renovation expenses; and (iii) massive capital spending, such as opening new shops and refurbishing existing shops. Moreover, according to the management of the Company, cash inflow from the distribution and retailing is unforeseeable and unstable and depends on the market situation to a great extent. Besides, part of the revenue from the Group's distribution and retailing business is represented as accounts receivable from department stores in which the Group has set up counters for the sale of its products, which is subject to a certain extent of credit risk. On the other hand, beneficial from the nature of its business model, the cash management of supply chain business can be better controlled. As advised by the management of the Company, the Group orders material and proceeds with production only after the sales order is confirmed for the supply chain business. The majority of sales orders are settled by letter of credit, which is subject to lesser extent of credit risk.

Given the dramatic change in the operating environment, the Directors are of the view that the Group's operating working capital will be tightened if the Company continues to run the Well Metro Group. We concur with the Directors' view that it's prudent to cease the devotion of valuable time and financial resources to the Well Metro Group, but instead place top priorities on reinforcing its inner strength focusing on its principal business (i.e. supply chain services) and use the proceeds from the Disposal to increase the general working capital and enhance its supply chain business to strengthen its foundation for future growth.

In addition, we note from the figures released by National Bureau of Statistic of China that, the consumer confidence index in the PRC declined continuously in the second half of 2008 and hit its lowest point of 87.3 in December 2008 since 2006. The following charts demonstrate the consumer confidence index, consumer expectation index and consumer satisfaction index from January 2006 to December 2008 in the PRC.



Source: National Bureau of Statistics of China

Taken into account that (i) the business of the Well Metro Group is more adversely affected by the global financial turmoil than the Group's supply chain business; (ii) the Disposal will allow the Group to devote undivided time and resources to its supply chain principal business, a key driving force of the earnings of the Group; and (iii) the consumer confidence currently weakens in the PRC, we consider that the Disposal is a fair and reasonable mean for the Group to face the challenging environment resulted from the financial tsunami and is in the interest of the Group and its Shareholders as a whole.

3. The Consideration

According to the Letter from the Board, the aggregate consideration for the Disposal is HK$100,000,000. The Consideration was agreed by the parties after arm's length negotiations with reference to the price earning ratio and the net asset value of the Well Metro Group as at 30 September 2008.

The Consideration is to be satisfied by the Purchaser in the following manner:

(a) as to HK$50,000,000 (or its US$ equivalent) shall be paid by way of electronic transfer for same day value upon signing of the Agreement;

(b) as to HK$30,000,000 (or its US$ equivalent) shall be paid by electronic transfer for same day value upon completion of satisfactory due diligence findings by the Purchaser on the Well Metro Group; and

(c) as to HK$20,000,000 (or its US$ equivalent), being the remaining balance of the Consideration, shall be paid by electronic transfer for same day value on Completion.

We note that the Consideration of HK$100,000,000 represents (i) a price to earning ratio ("**P/E**") of approximately 4.47 times based on the consolidated profit after taxation of the Well Metro Group for the year ended 31 December 2008 based on the Management Accounts of Well Metro and shared by the Sale Shares, being approximately HK$22,392,000; and (ii) a discount of approximately 16.68% of the consolidated net asset value of the Well Metro Group as at 31 December 2008 based on the Management Accounts of Well Metro and shared by the Sale Shares, being approximately HK$120,020,000.

In assessing the fairness and reasonableness of the Consideration, we have identified 13 comparable companies (the "**Comparable Companies**") being listed companies on the Stock Exchange which mainly engage in the business activities of distribution and retailing of apparel and accessories and include the Company. The Comparable Companies are identified by searching through published information, and may not contain all listed companies in the related industries. Shareholders should note that the stated P/Es and price to book ratios ("**P/Bs**") of the Comparable Companies could be sensitive to, amongst other things, each of their other businesses, financial position and market price performance of the shares of the respective Comparable Companies and therefore, the P/Es and P/Bs of the Comparable Companies listed below are for information and reference purposes only.

Company Name	**P/E**(1) *(times)*	**P/B**(2) *(times)*
Esprit Holdings Ltd. (stock code: 330)	7.09	3.43
Hang Ten Group Holdings Ltd. (stock code: 448)	1.81	0.51
Tristate Holdings Ltd. (stock code: 458)	2.41	0.24
Bauhaus International (Holdings) Ltd. (stock code: 483)	4.40	0.86
Goldlion Holdings Ltd. (stock code: 533)	2.89	0.37
Ports Design Ltd. (stock code: 589)	9.51	3.61
Bossini International Holdings Ltd. (stock code: 592)	4.44	0.41
Joyce Boutique Holdings Ltd. (stock code: 647)	3.76	0.43
Giordano International Ltd. (stock code: 709)	7.77	1.30
Theme International Holdings Ltd. (stock code: 990)	N/A(3)	0.40
I.T Ltd. (stock code: 999)	2.28	0.36
Benefun International Holdings Ltd. (stock code: 1130)	N/A(3)	0.49
The Company (stock code: 3989)	11.25(4)	0.15(4)
Minimum	**1.81**	**0.15**
Maximum	**11.25**	**3.61**
Average	**5.24**	**0.97**
Well Metro	4.47	0.83

Source: www.hkex.com.hk, and the relevant published annual/interim reports of the Comparable Companies.

Notes:

1. P/E is calculated based on (i) market price of the Comparable Companies as at 2 December 2008, the trading day immediately before the date of the Agreement; and (ii) earnings of the Comparable Companies extracted from the latest annual reports of the Comparable Companies.

2. P/B is calculated based on (i) market price of the Comparable Companies as at 2 December 2008, the trading day immediately before the date of the Agreement; and (ii) net asset value of the Comparable Companies extracted from the latest published annual/interim reports of the Comparable Companies.

3. This company recorded a loss for the relevant year.

4. Calculation is based on market price as at 27 November 2008, being the last trading day before the date of the Agreement.

5. For illustration purpose, the conversion rates of HK$1.00 = RMB0.8895 and US$1.00 = HK$7.80 were adopted.

As illustrated above, the P/Es of the Comparable Companies range from 1.81 times to 11.25 times, with an average of 5.24 times. The P/E of Well Metro implied by the Consideration, being 4.47 times, falls within the range of the Comparable Companies and is closed to the average. Shareholders are reminded that the profit of the Well Metro Group for the year ended 31 December 2008 was resulted from the Non-operating Items.

In terms of the P/Bs, the average as represented by the Comparable Companies is 0.97 times with a range of 0.15 times to 3.61 times. The Consideration represents a P/B of approximately 0.83 times, which falls within the range of the Comparable Companies and is closed to the average. If the Non-operating Items were taken away from the consolidated accounts of the Well Metro Group, its net asset value would be decreased and the P/B implied by the Consideration would be larger than 0.83 accordingly.

Having taking into account of the above, we consider that the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

4. Financial Effects

Upon Completion, the Company will cease to hold any interests in Well Metro which will cease to be a subsidiary of the Company. The results of the Well Metro Group will no longer be consolidated into the Group's accounts.

Earnings

According to the section headed "Pro Forma Financial Information on the Remaining Group" as stated in Appendix II to the Circular, the Disposal will record an estimated gain of approximately HK$28 million if the Disposal had taken place on 31 December 2008, which is calculated based on (i) deducting the net asset value of the Well Metro Group of approximately HK$144 million (less impairment made of HK$44 million) from the estimated proceeds of approximately HK$100 million; and (ii) releasing the exchange and other reserve of approximately HK$28 million upon the Disposal. The final amounts of gain on the Disposal will be different from the above and depends on the net asset value of the Well Metro Group on Completion.

In any event, Shareholders should note that the above gain is calculated after an impairment loss of approximately HK$44 million being made to the consolidated accounts of the Group due to the Consideration being less than the carrying amount of Well Metro.

In the short term future, the turnover of the Remaining Group will be adversely affected due to the Disposal. The long term effect on the turnover and profitability of the Remaining Group will depends on the Remaining Group's ability to further develop its supply chain business.

Net asset value

The Disposal will increase the net asset value of the Group from approximately HK$591.1 million to approximately HK$595.1 million based on the section headed "Pro Forma Financial Information on the Remaining Group" as stated in Appendix II to the Circular,.

Working capital

As set out in the annual results of the Group for the year ended 31 December 2008, the cash and bank balances of the Group was approximately HK$309.1 million as at 31 December 2008. According to the section headed "Pro Forma Financial Information on the Remaining Group" as stated in Appendix II to the Circular, the cash and bank balances of the Remaining Group will increase by approximately HK$16.1 million to approximately HK$325.2 million, as if the Disposal had taken place on 31 December 2008. Such an increase represents the difference between the remaining balance of the Consideration of HK$20 million unpaid as at the Latest Practicable Date and the cash and bank balances of the Well Metro Group as at 31 December 2008.

Gearing ratio

According to the annual results of the Group for the year ended 31 December 2008, the gearing ratio of the Group, which is calculated on the basis of total bank borrowings (net of cash and bank balances) over the Group's total shareholders' equity, was approximately 45.60%. The gearing ratio of the Remaining Group will be reduced to approximately 42.26% based on the section headed "Pro Forma Financial Information on the Remaining Group" as stated in Appendix II to the Circular.

RECOMMENDATION

Having taken into account the principal factors and reasons referred to the above, we are of the opinion that (i) the Agreement is on normal commercial terms and the terms of the Agreement (and the transactions contemplated thereunder) are fair and reasonable so far as the Company and the Independent Shareholders are concerned; and (ii) the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Board Committee to advise the Independent Shareholders, as well as the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Agreement (and the transactions contemplated thereunder).

Yours faithfully,
For and on behalf of
Cinda International Capital Limited
Kinson Li
Director and Head of Corporate Finance

1. ACCOUNTANTS' REPORT ON THE GROUP

Deloitte.
德勤

24 April 2009

The Directors
Hembly International Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Hembly International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the three years ended 31 December 2006, 2007 and 2008 (the "Relevant Periods") for inclusion in the circular issued by the Company dated 24 April 2009 in connection with the proposed disposal of 100% equity interest in Well Metro Group Limited ("Well Metro") (the "Circular").

The Company was incorporated in the Cayman Islands with limited liability. The Company is an investment holding company. Pursuant to a group reorganisation, as more fully explained in note 1 of the Accountants' Report, the Company became the holding company of the Group on 13 June 2006.

As at the date of this report, except for Full Prosper Holdings Ltd, a directly held subsidiary, the Company has the following indirectly held subsidiaries which are all private companies with limited liabilities:

Name of subsidiaries	Place and date of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company				Principal activities
			2006	2007	2008	as at report date	
Hembly Garment Manufacturing Limited ("HGM") 恒寶利製衣服裝有限公司	Hong Kong 26 March 1997	Ordinary shares HK$3,000,000	100%	100%	100%	100%	Investment holding and sale of garments
Hembly (Nanjing) Garment Co., Ltd. ("HNG") 恒寶利(南京)服裝有限公司*(note 1)*	PRC 7 April 2000	Registered capital US$3,000,000	100%	100%	100%	100%	Garment manufacturing
Hembly (Nanjing) Garment Manufacturing Co., Ltd. ("HNGM") 亨百利(南京)制衣有限公司*(note 1)*	PRC 1 July 2004	Registered capital US$2,100,000	100%	100%	100%	100%	Property holding
Hembly Garment Manufacturing Macao Commercial Offshore Limited ("Hembly Macau") 恒寶利製衣澳門離岸商業服務有限公司	Macau 1 February 2005	Quota capital MOP100,000	100%	100%	100%	100%	Sale of garments
M.D.T. Sourcing (China) Limited ("M.D.T. China")	Hong Kong 13 February 2004	Ordinary shares HK$780,000	51%	51%	51%	51%	Sale of garments
M.D.T. (Nanjing) Garment Manufacturing Company Limited ("M.D.T. Nanjing") 摩根(南京)制衣有限公司 *(note 1)*	PRC 24 November 2004	Registered capital US$500,000	51%	51%	51%	51%	Garment manufacturing and trading
Scienward (Nanjing) Garment Co., Ltd. ("Scienward Nanjing") 欣隆(南京)服裝有限公司*(note 1)*	PRC 18 September 2004	Registered capital US$1,000,000	70%	93.33%	100%	100%	Garment manufacturing and sourcing of garment
Scienward International Holdings Limited ("Scienward International") 欣華國際集團有限公司	Hong Kong 9 July 2004	Ordinary shares HK$1,000,000	70%	93.33%	100%	100%	Investment holding and distribution of apparel and footwear

Name of subsidiaries	Place and date of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company 2006	2007	2008	as at report date	Principal activities
恒寶利(揚州)制衣有限公司 *(note 1)* 「恒寶利(揚州)制衣」 (Hembly (Yangzhou) Garment Manufacturing Co., Ltd.)	PRC 30 December 1999	Registered capital US$10,000,000	100%	100%	100%	100%	Garment manufacturing and trading
Hembly Italia S.R.L. ("Hembly Italia")	Italy 30 April 2007	Ordinary shares EUR50,000	N/A	93.33%	100%	100%	Sale of garment
揚州欣瑞服飾有限公司 *(note 1)* 「揚州欣瑞」 (Yangzhou Sunrise Garment Manufacturing Co., Ltd.)	PRC 12 December 2006	Registered capital US$10,000,000	70%	93.33%	100%	100%	Property holding
Bristol Gain Investment Limited ("Bristol Gain")	British Virgin Islands 5 July 2006	Ordinary shares US$50,000	100%	100%	100%	100%	Investment holding
Complete Expert Ltd. ("Complete Expert")	British Virgin Islands 9 March 2004	Ordinary shares US$50,000	100%	100%	100%	100%	Investment holding
Full Prosper Holdings Limited ("Full Prosper")	British Virgin Islands 20 April 2004	Ordinary shares US$50,000	100%	100%	100%	100%	Investment holding
Hembly (Cyprus) Limited ("Hembly Cyprus")	Cyprus 14 July 2007	Ordinary shares EUR10,000	N/A	93.33%	100%	100%	Investment holding
Hembly Europe SARL *(note 5)* ("Hembly Europe")	France 7 April 2004	Ordinary shares EUR15,000	100%	100%	N/A	N/A	Marketing and business development of garment
Hembly Garment Limited ("HGL") 恒寶利服裝有限公司	Hong Kong 11 September 2000	Ordinary shares HK$10,000	100%	100%	100%	100%	Investment holding
Hembly Scandinavia AB ("Hembly Scandinavia")	Sweden 5 October 2004	Ordinary shares SEK200,000	100%	93.33%	100%	100%	Marketing and business development of garment

Name of subsidiaries	Place and date of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company 2006	2007	2008	as at report date	Principal activities
恆寶利(揚州)服飾有限公司 「恆寶利(揚州)服飾」 (Hembly (Yangzhou) Garment Co. Limited)	PRC 12 December 2006	Registered capital US$12,000,000	100%	100%	100%	100%	Investment holding
Hembly UK Limited ("Hembly UK")	UK 25 May 2007	Ordinary shares GBP100,000	N/A	93.33%	100%	100%	Investment holding
Investland Investments Limited ("Investland")	British Virgin Islands 16 April 2004	Ordinary shares US$50,000	100%	100%	100%	100%	Investment holding
Hembly Production Limited ("Hembly Production")	Hong Kong 11 November 2006	Ordinary shares HK$10,000	100%	100%	100%	100%	Investment holding
Limei International Limited ("Limei") 利美國際有限公司	British Virgin Islands 8 February 2005	Ordinary shares US$50,000	100%	100%	100%	100%	Investment holding
Manlisa Investment Limited ("Manlisa")	British Virgin Islands 5 July 2006	Ordinary shares US$50,000	70%	93.33%	100%	100%	Investment holding
Milan Star Limited ("Milan Star")	British Virgin Islands 29 July 2004	Ordinary shares US$50,000	70%	93.33%	100%	100%	Investment holding
Primeline Investment Limited ("Primeline")	British Virgin Islands 1 July 2004	Ordinary shares US$50,000	100%	100%	100%	100%	Investment holding
Pro-Brilliance International Development Limited ("Pro-Brilliance") 衡懋有限公司	Hong Kong 6 August 2003	Ordinary shares HK$10,000	65%	65%	65%	65%	Brand license management
Scienward Fashion and Luxury Limited ("Scienward F&L") 欣恆時裝尚品有限公司	Hong Kong 14 June 2007	Ordinary shares HK$10,000	N/A	93.33%	100%	100%	Investment holding

Name of subsidiaries	Place and date of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company				Principal activities
			2006	2007	2008	as at report date	
欣恒上品時裝貿易(上海)有限公司「欣恒上品」(Scienward Fashion and Luxury (Shanghai) Co. Ltd.)	PRC 30 October 2007	Registered capital US$2,000,000	N/A	93.33%	100%	100%	Distribution of apparel and accessories
Scienward Footwear and Assessories Limited ("Scienward F&A") 欣鼎皮鞋飾品有限公司	Hong Kong 6 September 2007	Ordinary shares HK$10,000	N/A	93.33%	100%	100%	Inactive
Scienward Footwear and Assessories Limited ("Scienward F&A BVI")	British Virgin Islands 23 August 2007	Ordinary shares US$50,000	N/A	93.33%	100%	100%	Investment holding
Scienward Sports & Casual Limited ("Scienward S&C") 欣韻運動休閒服裝有限公司	Hong Kong 6 September 2007	Ordinary shares HK$10,000	N/A	93.33%	100%	100%	Inactive
Spring Castle Group Limited ("Spring Castle")	British Virgin Islands 8 February 2005	Ordinary shares US$50,000	100%	100%	100%	100%	Investment holding
ST Sourcing Limited ("ST Sourcing")	Hong Kong 7 May 2007	Ordinary shares HK$10,000	N/A	100%	100%	100%	Investment holding
STF (China) Limited *(note 2)* ("STF") 斯通富來(中國)有限公司	Hong Kong 17 December 2004	Ordinary shares HK$8,000,000	35%	46.7%	100%	100%	Investment holding
STF (Nanjing) Garment Co. Limited *(note 2)* ("STF (Nanjing)") 斯通富來(南京)服飾有限公司	PRC 31 July 2006	Registered capital US$2,510,000	35%	46.7%	100%	100%	Sourcing, distribution of apparel and footwear
時帝夫(上海)服飾有限公司 *(note 2)*「時帝夫(上海)」(STF (Shanghai) Company Limited)	PRC 27 June 2006	Registered capital US$140,000	35%	46.7%	100%	100%	Sourcing, distribution of apparel and footwear

Name of subsidiaries	Place and date of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company				Principal activities
			2006	2007	2008	as at report date	
Well Metro	British Virgin Islands 21 May 2004	Ordinary shares US$50,000	70%	93.3%	100%	100%	Investment holding
南京德懋商貿有限公司 「南京德懋」	PRC 20 March 2007	Registered capital RMB5,000,000	N/A	100%	100%	100%	Garment manufacturing and trading
深圳恒寶利服飾有限公司 「深圳恒寶利」	PRC 10 April 2007	Registered capital US$5,000,000	N/A	100%	100%	100%	Garment manufacturing and trading
楊州恒佳制衣有限公司 「恒佳」 (Yangzhou HengJia Garment Manufacturing Co. Limited)	PRC 4 August 2005	Registered capital US$1,000,000	100%	100%	100%	100%	Garment manufacturing and trading
楊州恒寶利服飾營銷有限公司 「楊州恒寶利」	PRC 9 January 2008	Registered capital RMB36,000,000	N/A	N/A	100%	100%	Garment manufacturing and trading

As at the date of this report, the Company has the following indirectly held jointly controlled entities ("JCEs"), which are all private companies with limited liabilities:

Name of JCEs	Place & date of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company				Principal activities
			2006	2007	2008	as at report date	
Benlim Limited *(note 3)* ("Benlim")	Hong Kong 20 July 2006	Ordinary shares HK$11,700,000	35%	46.7%	50%	N/A	Investment holding
M.T.T. Limited ("M.T.T.") 恆賽爾有限公司	Hong Kong 7 April 2006	Ordinary shares HK$780,000	50%	50%	50%	50%	Investment holding

Name of JCEs	Place & date of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company				Principal activities
			2006	2007	2008	as at report date	
恆賽爾(揚州)服裝有限公司「恆賽爾」(M.T.T. (Yangzhou) Garment Co. Limited)	PRC 20 November 2006	Registered capital US$2,500,000	50%	50%	50%	50%	Garment manufacturing and trading
Nilorn China Limited (“Nilorn”)	Hong Kong 14 July 2008	Ordinary shares HK$10,000	N/A	N/A	50%	50%	Investment holding
上海熙絲黎商貿有限公司 *(note 3)* 「上海熙絲黎」(Shanghai Sisley Trading Company)	PRC 27 June 2007	Registered capital RMB10,000,000	N/A	46.7%	50%	N/A	Sourcing, distribution of apparel and footwear
Lotto China Limited *(note 4)* (“Lotto”) 樂途中國有限公司	Hong Kong 14 July 2005	Ordinary shares HK$1,000,000	35%	46.7%	N/A	N/A	Investment holding
Lotto (Nanjing) Garment Co. Limited *(note 4)* (“Lotto (Nanjing”) 樂途(南京)服飾有限公司	PRC 26 January 2006	Registered capital US$2,510,000	35%	46.7%	N/A	N/A	Sourcing, distribution of apparel and footwear
樂途(上海)貿易有限公司 *(note 4)* 「樂途(上海)」(Lotto (Shanghai) Company Limited)	PRC 14 September 2006	Registered capital US$140,000	35%	46.7%	N/A	N/A	Sourcing, distribution of apparel and footwear

Note 1: These companies are wholly foreign owned enterprises.

Note 2: These are wholly owned subsidiaries of STF, a former jointly controlled entity of the Company. The Company acquired remaining 50% equity interest in STF on 28 April 2008. Details of the acquisition are disclosed in note 41.

Note 3: These JCEs are disposed of in 2009.

Note 4: These are wholly owned subsidiaries of Lotto, a former jointly controlled entity of the Company. The Company disposed its 50% equity interest in Lotto to a joint venturer of Lotto in July 2008. Details of the disposal are disclosed in note 42.

Note 5: The company was deregistered during the year ended 31 December 2008.

None of the subsidiaries had issued any debt securities during the Relevant Periods, except Well Metro which has issued 1,500 convertible redeemable preference shares for HK$90,859,000 during the year ended 31 December 2007 in which the Group has no interest.

No audited financial statements have been prepared for the Company, Hembly Italia, Bristol Gain, Complete Expert, Full Prosper, Hembly Europe, Hembly UK, Investland, Limei, Manlisa, Milan Star, Primeline, Scienward F&A BVI, Spring Castle and Well Metro since their respective dates of incorporation/establishment either as they were incorporated in countries where there is no statutory requirement of preparing audited financial statements or they have not carried on business. For the purpose of this report, we have reviewed all the relevant transactions of these companies during the Relevant Periods or since their respective dates of incorporation/establishment to the date of this report, where this is a shorter period.

We have acted as the auditors of HGM, Hembly Macau, M.D.T. China, Scienward International, HGL, Hembly Production, Pro-Brilliance, Scienward F&L, Scienward F&A, Scienward S&C,ST Sourcing, STF, Benlim, M.T.T., Nilron and Lotto during the Relevant Periods or since their respective dates of incorporation to 31 December 2008, where there is a shorter period.

The statutory financial statements of the following subsidiaries were prepared in accordance with the relevant accounting principles and financial regulations applicable to these companies and audited by certified public accountants registered in the respective countries where these companies are incorporated/registered as follows:

Name of subsidiaries	**Auditors**	**Financial year end**
恒寶利(揚州)制衣	南京天正會計師事務所	Year ended 31 December 2006
	江蘇天泰會計師事務所	Year ended 31 December 2007
	江蘇天泰會計師事務所	Year ended 31 December 2008
恒賽爾	揚州弘瑞會計師事務所	From 20 November 2006 (date of establishment) to 31 December 2007
	揚州弘瑞會計師事務所	Year ended 31 December 2008
恒佳	揚州弘瑞會計師事務所	Year ended 31 December 2006
	揚州弘瑞會計師事務所	Year ended 31 December 2007
	揚州弘瑞會計師事務所	Year ended 31 December 2008
恒寶利(揚州)服飾	揚州東衡會計師事務所有限公司	Period from 12 December 2006 (date of establishment) to 31 December 2007
	揚州東衡會計師事務所有限公司	Year ended 31 December 2008

Name of subsidiaries	Auditors	Financial year end
揚州欣瑞	揚州東衡會計師事務所有限公司	Period from 12 December 2006 (date of establishment) to 31 December 2007
	揚州東衡會計師事務所有限公司	Year ended 31 December 2008
STF (Nanjing)	南京天正會計師事務所	Period from 31 July 2006 (date of establishment) to 31 December 2006
	上海宏華會計師事務所	Year ended 31 December 2007
	上海宏華會計師事務所	Year ended 31 December 2008
時帝夫(上海)	上海復興明方會計師事務所	Period from 27 June 2006 (date of establishment) to 31 December 2006
	上海復興明方會計師事務所	Year ended 31 December 2007
	上海復興明方會計師事務所	Year ended 31 December 2008
Lotto Nanjing	南京天正會計師事務所	Period from 26 January 2006 (date of establishment) to 31 December 2006
	上海定坤會計師事務所	Year ended 31 December 2007 *(Note 1)*
樂途(上海)	上海復興明方會計師事務所	Period from 14 September 2006 (date of establishment) to 31 December 2006
	上海定坤會計師事務所	Year ended 31 December 2007 *(Note 1)*
欣恒上品	上海宏華會計師事務所	Period from 30 October 2007 (date of establishment) to 31 December 2007
	上海陵誠會計師事務所	Year ended 31 December 2008
HNG	南京天正會計師事務所	Year ended 31 December 2006
	江蘇天泰會計師事務所	Year ended 31 December 2007
	江蘇天泰會計師事務所	Year ended 31 December 2008
HNGM	南京天正會計師事務所	Year ended 31 December 2006
	江蘇天泰會計師事務所	Year ended 31 December 2007
	江蘇天泰會計師事務所	Year ended 31 December 2008
M.D.T. Nanjing	南京天正會計師事務所	Year ended 31 December 2006
	江蘇天泰會計師事務所	Year ended 31 December 2007
	江蘇天泰會計師事務所	Year ended 31 December 2008
Scienward Nanjing	南京天正會計師事務所	Year ended 31 December 2006
	江蘇天泰會計師事務所	Year ended 31 December 2007
	江蘇天泰會計師事務所	Year ended 31 December 2008
Hembly Cyprus	P.G. Economides & Co Limited Chartered Certified Accountants	Period from 14 July 2007 (date of establishment) to 31 December 2007 *(note 2)*

Name of subsidiaries	Auditors	Financial year end
Hembly Scandinavia	Lindebergs Grant Thornton AB	Year ended 31 December 2006
	Lindebergs Grant Thornton AB	Year ended 31 December 2007
	Lindebergs Grant Thornton AB	Year ended 31 December 2008
南京德懋	南京天正會計師事務所	Year ended 31 December 2006
	江蘇天泰會計師事務所	Year ended 31 December 2007
	江蘇天泰會計師事務所	Year ended 31 December 2008
深圳恒寶利	深圳中州會計事務所	Period from 10 April 2007 (date of establishment) to 31 December 2007 *(note 2)*
	深圳中州會計事務所	Year ended 31 December 2008 *(note 2)*
揚州恒寶利	江蘇天泰會計師事務所	Period from 9 January 2008 (date of establishment) to 31 December 2008
上海熙絲黎	普華永道中天會計師事務所有限公司	Period from 27 June 2007 (date of establishment) to 31 December 2007 *(note 2)*

Note 1: These JCEs were disposed of during year ended 31 December 2008.

Note 2: The statutory account for 31 December 2008 has not been issued yet.

We have performed an independent audit on the consolidated financial statements of the Group for the Relevant Periods ("Underlying Financial Statements"), which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), in accordance with Hong Kong Standards on Auditing issued by the HKICPA and for the purpose of this report, have examined Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Group for the Relevant Periods as set out in this report has been prepared based on the Underlying Financial Statements for the Relevant Periods without making any adjustments for the purpose of inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of the Company. The directors of the Company are also responsible for the contents of the Circular in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and the Company as at 31 December 2006, 2007 and 2008 and of the consolidated results and cash flows of the Group for the Relevant Periods.

A. FINANCIAL INFORMATION

Consolidated Income Statements

	NOTES	Year ended 31 December 2006 HK$'000	2007 HK$'000	2008 HK$'000
Revenue	7	611,330	1,036,956	1,356,445
Cost of sales		(391,801)	(697,206)	(991,305)
Gross profit		219,529	339,750	365,140
Fair value change of an investment property	18	–	13,249	(3,371)
Discount on acquisition of additional interest in a subsidiary		–	–	4,922
Other income	9	5,913	15,095	20,545
Administrative expenses		(86,430)	(134,107)	(150,042)
Distribution and selling costs		(24,967)	(63,518)	(133,389)
Impairment loss on goodwill	21	–	–	(36,862)
Impairment loss on intangible assets	21	–	–	(2,138)
Impairment loss on property, plant and equipment	21	–	–	(23,425)
Impairment loss on prepaid lease payments	21	–	–	(2,405)
Gain on change in fair value of conversion option derivative liability	37	–	–	19,873
Gain on disposal of a jointly controlled entity	42	–	–	15,134
Finance costs	10	(23,256)	(40,517)	(58,207)
Profit before tax	11	90,789	129,952	15,775
Income tax expense	12	(13,296)	(21,828)	(14,301)
Profit for the year		77,493	108,124	1,474
Attributable to:				
Equity holders of the Company		78,128	107,747	7,798
Minority interests		(635)	377	(6,324)
		77,493	108,124	1,474
Dividends recognised as distribution during the year	15	7,586	26,236	28,303
Earnings per share	16			
Basic		HK36.50 cents	HK40.32 cents	HK2.76 cents
Diluted		HK36.47 cents	HK39.93 cents	HK1.31cents

Consolidated Balance Sheets

		As at 31 December		
		2006	**2007**	**2008**
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	*17*	175,106	230,983	323,432
Investment property	*18*	–	71,505	29,885
Intangible assets	*19*	–	10,186	12,177
Goodwill	*20*	–	20,800	–
Prepaid lease payments	*22*	59,391	64,911	66,044
Loan to a jointly controlled entity	*24*	5,168	5,168	–
Available-for-sale investments	*25*	5,424	2,870	575
Financial assets at fair value through profit or loss	*39*	–	–	5,968
Deferred tax assets	*38*	–	287	626
		245,089	406,710	438,707
Current assets				
Inventories	*26*	107,315	178,559	291,844
Trade receivables	*27*	187,932	243,759	402,210
Deposits, prepayments and other receivables		58,229	109,058	59,999
Prepaid lease payments	*22*	1,246	1,389	1,497
Loans to jointly controlled entities	*24*	5,596	8,273	–
Amount due from a minority shareholder	*28*	1,300	6,689	–
Amount due from a related company	*29*	–	174,388	99,171
Amounts due from jointly controlled entities	*30*	6,112	6,609	12,417
Amount due from a former jointly controlled entity	*30*	–	–	918
Available-for-sale investments	*25*	1,960	3,174	3,021
Tax recoverable		1,584	–	–
Pledged bank deposits	*31*	57,462	48,099	41,719
Bank deposits with original maturity of more than three months	*31*	150,000	313,767	218,391
Bank balances and cash	*31*	30,982	112,223	48,969
		609,718	1,205,987	1,180,156
Assets classified as held for sale	*32*	–	41,530	25,380
		609,718	1,247,517	1,205,536

		As at 31 December		
		2006	**2007**	**2008**
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities				
Trade payables	*33*	58,631	131,260	148,592
Other payables and accruals		28,802	84,736	77,609
Deposit received for disposal of a subsidiary		–	–	80,000
Loans from joint venturers of jointly controlled entities	*34*	6,273	13,441	–
Amounts due to joint venturers of jointly controlled entities	*30*	6,682	17,097	9,155
Amounts due to jointly controlled entities	*30*	–	5,812	20,028
Taxation payable		10,459	26,064	32,894
Obligations under finance leases – due within one year	*35*	328	910	798
Bank borrowings – due within one year	*36*	287,871	426,009	345,932
Bank overdrafts	*36*	76	607	26,073
		399,122	705,936	741,081
Liabilities associated with assets classified as held for sale	*32*	–	13,080	25,113
		399,122	719,016	766,194
Net current assets		210,596	528,501	439,342
Total assets less current liabilities		455,685	935,211	878,049

		As at 31 December		
		2006	**2007**	**2008**
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities				
Loans from joint venturers of jointly controlled entities	*34*	5,168	–	–
Obligations under finance leases – due after one year	*35*	596	2,019	1,219
Bank borrowings – due after one year	*36*	104,710	257,128	206,627
Convertible redeemable preference shares	*37*	–	68,071	79,292
Conversion option derivative liability	*37*	–	22,022	2,149
Deferred tax liabilities	*38*	–	3,411	6,492
		110,474	352,651	295,779
		345,211	582,560	582,270
Capital and reserves				
Share capital	*40*	25,288	28,283	28,303
Reserves		319,902	546,624	562,843
Equity attributable to equity holders of the Company		345,190	574,907	591,146
Minority interests		21	7,653	(8,876)
		345,211	582,560	582,270

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company												
	Share capital	Share premium	Enterprise expansion reserve	Statutory reserve	Translation reserve	Share options reserve	Special reserve	Investment revaluation reserve	Step acquisition revaluation reserve	Retained profits	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000* *(note a)*	*HK$'000* *(note b)*	*HK$'000*	*HK$'000*	*HK$'000* *(note c)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	7	31,037	2,015	3,356	2,370	–	3,008	(201)	–	106,706	148,298	656	148,954
Exchange differences arising on translation of foreign operations	–	–	–	–	8,588	–	–	–	–	–	8,588	–	8,588
Gain on fair value change of available-for-sale investments	–	–	–	–	–	–	–	89	–	–	89	–	89
Income recognised directly in equity	–	–	–	–	8,588	–	–	89	–	–	8,677	–	8,677
Profit for the year	–	–	–	–	–	–	–	–	–	78,128	78,128	(635)	77,493
Total recognised income for the year	–	–	–	–	8,588	–	–	89	–	78,128	86,805	(635)	86,170
Reserve arising from group restructuring	3,993	(31,037)	–	–	–	–	27,044	–	–	–	–	–	–
Issue of shares	7,008	112,128	–	–	–	–	–	–	–	–	119,136	–	119,136
Issue of shares on capitalisation of share premium accounts	14,000	(14,000)	–	–	–	–	–	–	–	–	–	–	–
Share issuance expenses	–	(8,616)	–	–	–	–	–	–	–	–	(8,616)	–	(8,616)
Exercise of share options	280	4,984	–	–	–	–	–	–	–	–	5,264	–	5,264
Recognition of equity-settled share based payments	–	–	–	–	–	1,889	–	–	–	–	1,889	–	1,889
Transfer	–	–	–	4,104	–	–	–	–	–	(4,104)	–	–	–
Interim dividend paid	–	–	–	–	–	–	–	–	–	(7,586)	(7,586)	–	(7,586)
At 31 December 2006 and 1 January 2007	25,288	94,496	2,015	7,460	10,958	1,889	30,052	(112)	–	173,144	345,190	21	345,211
Exchange differences arising on translation of foreign operations	–	–	–	–	27,786	–	–	–	–	–	27,786	566	28,352
Gain on fair value change of available-for-sale investments	–	–	–	–	–	–	–	620	–	–	620	–	620
Income recognised directly in equity	–	–	–	–	27,786	–	–	620	–	–	28,406	566	28,972
Profit for the year	–	–	–	–	–	–	–	–	–	107,747	107,747	377	108,124
Total recognised income for the year	–	–	–	–	27,786	–	–	620	–	107,747	136,153	943	137,096
Issue of shares	2,380	99,722	–	–	–	–	–	–	–	–	102,102	–	102,102
Share issuance expenses	–	(3,153)	–	–	–	–	–	–	–	–	(3,153)	–	(3,153)
Exercise of share options	615	16,095	–	–	–	–	–	–	–	–	16,710	–	16,710
Transfer to share premium upon exercise of share options	–	3,525	–	–	–	(3,525)	–	–	–	–	–	–	–
Recognition of equity-settled share based payments	–	–	–	–	–	4,141	–	–	–	–	4,141	–	4,141
Contribution from a minority shareholder	–	–	–	–	–	–	–	–	–	–	–	6,689	6,689
Transfer	–	–	–	3,471	–	–	–	–	–	(3,471)	–	–	–
Dividend paid	–	–	–	–	–	–	–	–	–	(26,236)	(26,236)	–	(26,236)
At 31 December 2007 and 1 January 2008	28,283	210,685	2,015	10,931	38,744	2,505	30,052	508	–	251,184	574,907	7,653	582,560

	Attributable to equity holders of the Company												
	Share capital HK$'000	Share premium HK$'000	Enterprise expansion reserve HK$'000 (note a)	Statutory reserve HK$'000 (note b)	Translation reserve HK$'000	Share options reserve HK$'000	Special reserve HK$'000 (note c)	Investment revaluation reserve HK$'000	Step acquisition revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
Exchange differences arising on translation of foreign operations	–	–	–	–	33,912	–	–	–	–	–	33,912	(783)	33,129
Loss on fair value change of available-for-sale investments	–	–	–	–	–	–	–	(45)	–	–	(45)	–	(45)
Revaluation increase on step acquisition from a jointly subsidiary controlled entity to a recognised directly in equity *(note 41)*	–	–	–	–	–	–	–	–	1,118	–	1,118	–	1,118
Net (expense) income recognised directly in equity	–	–	–	–	33,912	–	–	(45)	1,118	–	34,985	(783)	34,202
Profit for the year	–	–	–	–	–	–	–	–	–	7,798	7,798	(6,324)	1,474
Transfer to profit or loss on disposal of available-for-sale investment	–	–	–	–	–	–	–	(168)	–	–	(168)	–	(168)
Released on disposal of a jointly controlled entity	–	–	–	–	(1,442)	–	–	–	–	–	(1,442)	–	(1,442)
Total recognised income and expense for the year	–	–	–	–	32,470	–	–	(213)	1,118	7,798	41,173	(7,107)	34,066
Exercise of share options	20	560	–	–	–	–	–	–	–	–	580	–	580
Transfer to share premium upon exercise of share options	–	100	–	–	–	(100)	–	–	–	–	–	–	–
Recognition of equity-settled share based payments	–	–	–	–	–	2,789	–	–	–	–	2,789	–	2,789
Acquisition of additional interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(9,422)	(9,422)
Transfer	–	–	–	6,483	–	–	–	–	–	(6,483)	–	–	–
Dividend paid	–	–	–	–	–	–	–	–	–	(28,303)	(28,303)	–	(28,303)
At 31 December 2008	28,303	211,345	2,015	17,414	71,214	5,194	30,052	295	1,118	224,196	591,146	(8,876)	582,270

Notes:

(a) According to their respective Articles of Association, the subsidiaries registered in the People's Republic of China ("PRC") shall make appropriation to the enterprise expansion reserve out of profit after tax of the statutory financial statements and the amount and allocation basis are decided by its board of directors annually. The enterprise expansion reserve can be used to expand the capital of the PRC subsidiaries.

(b) The statutory reserve of the Group refers to the PRC statutory reserve fund. Appropriations to such reserve fund are made out of profit after tax of the statutory financial statements of the PRC subsidiaries and the amount should not be less than 10% of the profit after tax unless the aggregate amount exceeded 50% of registered capital of the PRC subsidiaries. The statutory reserve fund can be used to make up prior years' losses of the PRC subsidiaries.

(c) The special reserve as at 1 January 2006 represented the difference between the aggregate of the nominal value of share capital of the subsidiaries acquired pursuant to a group reorganisation in May 2005 and the nominal value of the share capital issued by Full Prosper as consideration for the acquisition.

The special reserve arose during the year ended 31 December 2006 represents the difference between the aggregate of the nominal value of share capital and share premium of Full Prosper acquired by the Company pursuant to a group reorganisation in June 2006 and the nominal value of the share capital issued by the Company as consideration for the acquisition.

Consolidated Cash Flow Statements

		Year ended 31 December		
		2006	**2007**	**2008**
	NOTE	*HK$'000*	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES				
Profit before tax		90,789	129,952	15,775
Adjustments for:				
Discount on acquisition of additional interest in a subsidiary		–	–	(4,922)
Depreciation of property, plant and equipment		10,239	15,007	29,218
Amortisation of prepaid lease payments		623	1,278	1,463
Share-based payment expense		1,889	4,141	2,789
Share issuance expense charged to consolidated income statement		9,772	–	–
Interest expense on convertible redeemable preference shares		–	–	11,221
Other interest expense		23,256	40,517	46,986
Interest income		(3,477)	(7,853)	(7,916)
Gain on disposal of a jointly controlled entity	*42*	–	–	(15,134)
Impairment loss recognised in respect of trade receivables		–	3,226	1,234
Reversal of impairment loss on loan to a jointly controlled entity		–	(677)	–
Allowance for inventories		–	1,675	317
Gain on disposal of available-for-sale investments		–	(278)	(168)
Change in fair value of financial assets at fair value through profit and loss		–	–	194
Loss on disposal of property, plant and equipment		696	1,061	1,443
Amortisation of intangible assets		–	631	2,409
Change of fair value of an investment property		–	(13,249)	3,371
Impairment loss on goodwill		–	–	36,862
Impairment loss on intangible assets		–	–	2,138
Impairment loss on property, plant and equipment		–	–	23,425
Impairment loss on prepaid lease payments		–	–	2,405
Gain on change in fair value of conversion option derivative liability		–	–	(19,873)
Operating cash flows before movements in working capital		133,787	175,431	133,237
Increase in inventories		(36,892)	(66,209)	(112,850)
Increase in trade receivables		(93,614)	(56,049)	(150,108)
(Increase) decrease in deposits, prepayments and other receivables		(10,180)	(48,318)	48,673
Increase in amounts due from jointly controlled entities		–	–	(6,601)
Decrease in amount due from a minority shareholder		9,284	1,300	–
(Increase) decrease in amount due from a related company		–	(174,388)	75,217
Increase in trade payables		14,876	69,648	15,792
(Decrease) increase in other payables and accruals		(5,738)	25,726	17,329
Increase in amounts due to joint venturers of jointly controlled entities		5,225	10,415	12,919
(Decrease) increase in amount due to a jointly controlled entity		(2,622)	5,812	22,205

		Year ended 31 December		
		2006	2007	2008
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*
Cash from (used in) operations		14,126	(56,632)	55,813
Hong Kong Profits Tax (paid) refund		(4,065)	1,472	(9)
Tax paid for other jurisdictions		(2,659)	(3,446)	(6,361)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		7,402	(58,606)	49,443
INVESTING ACTIVITIES				
Purchase of property, plant and equipment		(61,504)	(57,527)	(92,560)
Acquisition of additional interest in a former jointly controlled entity	*41*	–	–	(7,042)
Purchase of financial assets at fair value through profit and loss		–	–	(6,162)
Purchase of intangible assets		–	(10,817)	(4,789)
Purchase of available-for-sale investments		(2,496)	–	(805)
Increase in prepaid lease payments		(30,536)	(2,818)	(36)
Increase in amounts due from jointly controlled entities		(6,112)	(497)	–
Deposit received for disposal of a subsidiary		–	–	80,000
Decrease (increase) in bank deposits with original maturity of more than three months		(150,000)	(163,767)	71,212
(Loans to) repayment from jointly controlled entities		(9,190)	(2,000)	12,046
Interest received		3,477	7,853	7,916
(Increase) decrease in pledged bank deposits		(24,894)	9,363	6,342
Disposal of a jointly controlled entity	*42*	–	–	5,193
Proceeds on disposal of available-for-sale investments		–	2,238	3,208
Proceeds on disposal of property, plant and equipment		1,091	159	3,176
Purchase of investment property		–	(56,181)	–
Acquisition of additional interest in a subsidiary	*41*	–	(20,800)	–
Decrease in amounts due from related companies		21,845	–	–
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(258,319)	(294,794)	77,699

		Year ended 31 December		
		2006	2007	2008
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*
FINANCING ACTIVITIES				
Repayment of bank borrowings		(1,074,925)	(1,761,726)	(2,364,804)
Interest paid		(23,256)	(40,517)	(46,986)
Dividend paid		(7,586)	(26,236)	(28,303)
Loans from (repayment of) joint venturers of jointly controlled entities		9,191	2,000	(14,836)
Repayment of obligations under finance leases		(1,490)	(329)	(913)
New bank borrowings raised		1,228,242	2,047,297	2,215,210
Additional capital contribution from minority interest of a subsidiary		–	–	6,689
Proceeds from issue of ordinary shares		124,400	118,812	580
Share issuance expenses		(18,388)	(3,153)	–
Issuance of convertible redeemable preference shares		–	90,859	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES		236,188	427,007	(233,363)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(14,729)	73,607	(106,221)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		2,874	7,103	20,984
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		42,761	30,906	111,616
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		30,906	111,616	26,379
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS				
Bank balances and cash		30,982	112,223	48,969
Bank overdrafts		(76)	(607)	(26,073)
Cash and cash equivalents included in a disposal group held for sale		–	–	3,483
		30,906	111,616	26,379

Notes to the Financial Information

1. GENERAL

The Company was incorporated in Cayman Islands under the Companies Law as an exempted company with limited liability on 27 May 2004 and its shares have been listed on Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 13 July 2006. The addresses of the registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and 36/F., No. 1 Hung To Road, Kwun Tong, Kowloon, Hong Kong, respectively.

Under a group reorganisation scheme ("Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred as the "Group") in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 13 June 2006.

The principal steps of the Group Reorganisation, which involved the exchange of shares, were as follows:

(a) One subscriber share of the Company was allotted and issued at nil paid to Mr. Ngok Yan Yu, as the initial shareholder of the Company; and

(b) On 13 June 2006, the shareholders of Full Prosper which was former holding company of the Company's subsidiaries before the Group Reorganisation, transferred to the Company an aggregate of 903 shares of US$1 each in Full Prosper, being the entire issued share capital of Full Prosper, in consideration and in exchange for 39,999,999 shares of HK$0.10 each of the Company.

The Group resulting from the above mentioned Group Reorganisation is regarded as a continuing entity. Accordingly, the Financial Information of the Group has been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA as if the group structure under the Group Reorganisation had been in existence throughout the year ended 31 December 2006.

The principal activities of the Group are the manufacture and sales of apparel and accessories, and distribution and retailing of apparel and footwear.

The Financial Information is presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

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

The Group has adopted all the new and revised standards, amendments and interpretations (new HKFRSs) issued by HKICPA, which are effective for the Group's financial periods beginning on or after 1 January 2008 in the preparation of the Financial Information throughout the Relevant Periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combination3
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segement[2]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 15	Accounting for Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfer of Assets from Customer[7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods ending on or after 30 June 2009
5 Effective for annual periods beginning on or after 1 July 2008
6 Effective for annual periods beginning on or after 1 October 2008
7 Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised) may affect the accounting for the Group's business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. HKAS 23 (Revised) requires borrowing costs related to qualifying assets of the Group to be capitalised prospectively. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and financial positions of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis except for investment property and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The Financial Information incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Acquisition of additional interests in subsidiaries

On acquisition of additional interests in subsidiaries, goodwill is measured at the excess of the consideration over aggregate of the carrying amounts of identified assets and liabilities of the subsidiaries acquired.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

When a business combination involves more than one exchange transaction, each exchange transaction shall be treated separately by the acquirer, using the cost of the transaction and fair value information at the date of each exchange transaction to determine the amount of any goodwill associated with that transaction. Any adjustment to those fair values relating to previously held interests of the Group is credited to the revaluation reserve.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment at the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating units, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Group recognises its interests in jointly controlled entities using proportionate consolidation except when the investment is classified as held-for-sale in which case it is accounted for under HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the Financial Information.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Non-current assets held for sale

Disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and disposal group is available for immediate sale in its present condition.

Disposal groups classified as held for sale are measured at the lower of the disposal groups' previous carrying amount and fair value less costs to sell.

Revenue recognition

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

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Royalty fee income is recognised when the rights to receive payment are established.

Sourcing income are recognised when the services are rendered.

Delivery charge and management fee income are recognised when services are rendered.

Interest income from a financial asset excluding financial assets at fair value through profit and loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purpose, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	4.5%
Leasehold improvement	Shorter of useful life or the lease terms
Plant and machinery	9% to 20%
Furniture, fixtures and equipment	10% to 20%
Motor vehicles	10% to 20%

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

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

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

When there is any transfer from investment property carried at fair value to owner-occupied property, the property's deemed cost for subsequent accounting shall be its fair value at the date of change in use.

Leasing

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

The Group as lessor

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining consolidated balance of the liability. Finance charges are charged to profit or loss.

Rentals payable under operating leases are charged to the consolidated income statements on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases except for those that are classified and accounted for as investment properties under the fair value model.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in consolidated income statement in the year in which they are incurred.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in consolidated income statement in the year in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollar) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in consolidated income statement in the year in which the foreign operation is disposed of.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in consolidated income statement.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets and financial assets at fair value through profit or loss ("FVTPL").

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, amounts due from a minority shareholder, a related company, a former jointly controlled entity and jointly controlled entities, loans to jointly controlled entities, bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Financial assets at fair value through profit or loss

Financial assets at FVTPL represent financial assets designated as at FVTPL on initial recognition.

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

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

- significant financial difficulty of the issuer or counterparty; or

- default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, other receivables, amount(s) due from minority shareholder, a related company, jointly controlled entities and a former jointly controlled entity, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable and other receivables, amount(s) due from minority shareholder, a related company, jointly controlled entities and a former jointly controlled entity are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Convertible redeemable preference shares

Convertible redeemable preference shares issued by the Group that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible redeemable preference shares are allocated to the liability and conversion option components in proportion to their relative fair values at initial recognition. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Other financial liabilities

Other financial liabilities including trade payables, other payables, deposit received for disposal of a subsidiary, amounts due to joint venturers of jointly controlled entities and jointly controlled entities, loans from joint venturers of jointly controlled entities, obligations under finance leases, bank overdrafts and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred assets, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Retirement benefit costs

Payments to the defined contribution retirement benefit plans are charged as expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to directors and employees

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

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF UNCERTAINTY

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

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

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

Key sources of estimation uncertainty

Estimated impairment of trade receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2006, 2007 and 2008, the carrying amount of trade receivable is approximately HK$187,932,000, HK$243,759,000 and HK$402,210,000, respectively.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the loans from joint venturers of jointly controlled entities, obligations under finance leases, bank borrowings and convertible redeemable preference shares disclosed in notes 34, 35, 36 and 37, respectively, net of cash and cash equivalents, and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

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

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	At 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
FVTPL	–	–	5,968
Loans and receivables (including cash and cash equivalents)	499,197	1,028,033	886,052
Available-for-sale investments	7,384	6,044	3,596
Financial liabilities			
Amortised cost	475,886	975,569	994,387
Conversion option derivative liability	–	22,022	2,149

6b. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, available-for-sale investments, financial assets at FVTPL, bank deposits and bank balances, amounts due from (to) a minority shareholder, a former jointly controlled entity, jointly controlled entities, joint venturers of jointly controlled entities and a related company, trade payables, other payables, deposit received for disposal of a subsidiary, loans form joint venturers of jointly controlled entities, convertible redeemable preference shares, conversion option derivative liability, obligations under finance leases and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, and certain trade receivables and trade payables of the Group are denominated in Renminbi, United States Dollars ("USD") and EURO, which expose the Group to foreign currency risk. In the year ended 31 December 2006, 2007 and 2008, approximately 75%, 75% and 60% of the sales of the Group are denominated in currencies other than the functional currencies of the group entity making the sale, respectively whilst almost 37%, 37% and 35% costs are denominated in currencies other than the group entity's functional currencies, respectively. For sales made in USD, the currency risk is minimal as the exchange rate of HKD is pegged with USD.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure by closely monitoring the movement of foreign currency rate.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	At 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Renminbi	38	4,517	–
Euro	131	472	4,311
Liabilities			
Renminbi	202	12,553	32
Euro	3,557	3,559	18,789
USD	260,015	130,769	272,758

Sensitivity analysis

The Group is mainly exposed to the fluctuations in Renminbi and Euro against Hong Kong Dollars, which is the functional currency of respective group entities.

The following table details the Group's sensitivity to a 7% increase and decrease in Renminbi and Euro against Hong Kong Dollars. 7% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 7% change in foreign currency rate. A negative number below indicates a decrease in profit of the Group where Renminbi and Euro strengthen 7% against Hong Kong Dollars. For a 7% weakening of Renminbi and Euro against Hong Kong Dollars, there would be an equal and opposite impact on the profit of the Group.

	Renminbi			Euro		
	2006	**2007**	**2008**	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit for the year (i)	(11)	(562)	(2)	(240)	(105)	(1,013)

(i) This is mainly attributable to the exposure to outstanding Renminbi and Euro receivables, payables and borrowings in the Group at year end.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to loan to a jointly controlled entity/loans to jointly controlled entities, pledged bank deposits, fixed-rate loans from joint venturers of jointly controlled entities, fixed-rate bank borrowing and convertible redeemable preference shares (see Notes 24, 31, 34, 36 and 37 for details). The Group currently does not enter into any hedging instruments for fair value interest rate risk.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 36 for details of these borrowings).

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Inter-Bank Borrowing Rate ("HIBOR") arising from the Group's USD and Hong Kong dollar ("HKD") denominated borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the variable-rate bank balances and bank borrowings at each balance sheet date. For variable-rate bank borrowings and bank balances, the analysis is prepared assuming the balances outstanding as at balance sheet date were outstanding throughout the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At 31 December 2006, 2007 and 2008, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year would decrease/increase by HK$1,474,000, HK$2,928,000 and HK$1,721,000, respectively.

Other price risk

The Group is exposed to equity price risk through certain available-for-sale investments, which linked to the performance of certain equity index in Hong Kong and Asia, conversion option derivative liability and financial assets at FVTPL as disclosed in note 25, 37 and 39, respectively. The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

At 31 December 2006, 2007 and 2008, if the fair value of the respective funds in available-for-sale investments had been 5% higher/lower, investment valuation reserve would increase/decrease by approximately HK$369,000, HK$302,000 and HK$151,000, respectively, for the Group as a result of the change in fair value of available-for-sale investments.

If the prices of the respective financial assets at FVTPL had been 5% higher/lower, profit for the year ended 31 December 2008 would increase/decrease by approximately HK$298,000 for the Group as a result of the change in fair value of financial assets at FVTPL. No financial assets at FVTPL has been recognised as at 31 December 2006 and 2007.

If the volatility used in the binomial model for calculating the fair value of the conversion option derivative liability had been 5% higher/lower and all other variables were held constant, profit for the year of the Group would increase/decrease by approximately HK$1,515,000/HK$1,475,000 for the year ended 31 December 2007 and HK$549,000/HK$494,000 for the year ended 31 December 2008 as a result of the change in fair value of conversion option derivative liability.

In management's opinion, the sensitivity analysis are unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the conversion option derivative liability of the redeemable convertible preference shares involves multiple variables and certain variables are interdependent.

Credit risk

As at 31 December 2006, 2007 and 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by the counter parties or debtors is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has been largely dependent on a small number of customers for a substantial portion of its business. The largest 5 customers accounted for a total of 50%, 45% and 53% of the Group's trade receivables as at 31 December 2006, 2007 and 2008, respectively. The failure of any of these customers to make required payments could have a substantial negative impact on the Group's profits. The Group manages this risk by applying a limit on the credit to these customers.

The Group's concentration of credit risk by geographical locations is mainly in Asia and Europe, which accounted for 27% and 73%, 55% and 45%, 75% and 25% of the total trade receivable as at 31 December 2006, 2007 and 2008, respectively.

The Group's concentration of credit risk also arises from amount due from a related company, in which a director of the Company has beneficial interest, amounting to approximately nil, HK$174,388,000 and HK$99,171,000 as at 31 December 2006, 2007 and 2008, respectively. The Group considers the risk is minimal as there is continue trade and settlement with the related company.

The credit risk on bank balances is limited because the counterparties are reputable banks in the PRC and Hong Kong.

Liquidity risk

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

Liquidity and interest risk tables

The following tables detail the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities as at 31 December 2006, 2007 and 2008. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group and the Company can be required to pay. The table includes both undiscounted cash flows and principal cash flows.

THE GROUP

	Weighted average interest rate	Less than 1 month *HK$'000*	1-3 months *HK$'000*	3 months to 1 year *HK$'000*	1 to 2 years *HK$'000*	Over 2 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount at balance sheet date *HK$'000*
2006								
Trade and other payables	–	–	60,475	3,707	–	–	64,182	64,182
Loans from joint ventures of jointly controlled entities	5.0%	–	–	6,386	5,698	–	12,084	11,441
Amounts due to joint venturers of jointly controlled entities	–	–	–	6,682	–	–	6,682	6,682
Obligations under finance leases	3.2%	–	92	276	368	298	1,034	924
Bank borrowings								
– Fixed rate	5.4%	–	–	–	21,512	–	21,512	20,000
– Variable rate	6.6%	–	242,869	49,190	81,776	9,081	382,916	372,581
Bank overdrafts	7.8%	76	–	–	–	–	76	76
		76	303,436	66,241	109,354	9,379	488,486	475,886
2007								
Trade and other payables	–	–	164,352	20,123	–	–	184,475	184,475
Loans from joint venturers of jointly controlled entities	5.0%	–	–	14,113	–	–	14,113	13,441
Amounts due to joint venturers of jointly controlled entities	–	–	–	17,097	–	–	17,097	17,097
Amount due to a jointly controlled entity	–	–	–	5,812	–	–	5,812	5,812
Convertible redeemable preference shares *(Note)*	15.6%	–	–	–	–	105,181	105,181	68,071
Obligations under finance leases	3.2%	–	262	786	891	1,277	3,216	2,929
Bank borrowings								
– Fixed rate	5.7%	–	–	–	52,183	–	52,183	48,206
– Variable rate	5.5%	–	294,656	143,599	130,611	96,979	665,845	634,931
Bank overdrafts	7.0%	617	–	–	–	–	617	607
		617	459,270	201,530	183,685	203,437	1,048,539	975,569

	Weighted average interest rate	Less than 1 month	1-3 months	3 months to 1 year	1 to 2 years	Over 2 years	Total undiscounted cash flows	Carrying amount at balance sheet date
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2008								
Trade and other payables	–	–	71,955	130,843	–	–	202,798	202,798
Deposit received for disposal of a subsidiary	–	–	–	80,000	–	–	80,000	80,000
Amounts due to joint venturers of jointly controlled entities	–	–	–	31,620	–	–	31,620	31,620
Amount due to a jointly controlled entity	–	–	–	20,028	–	–	20,028	20,028
Convertible redeemable preference shares *(Note)*	15.6%	–	–	–	105,181	–	105,181	79,292
Obligations under finance leases	3.2%	–	223	668	761	516	2,168	2,017
Bank borrowings								
– Fixed rate	7.0%	–	444	1,331	227,139	–	228,914	208,307
– Variable rate	3.4%	–	342,111	5,026	–	–	347,137	344,252
Bank overdrafts	5.3%	26,188	–	–	–	–	26,188	26,073
		26,188	414,733	269,516	333,081	516	1,044,034	994,387

Note: The convertible redeemable preference share can be converted to ordinary share of a subsidiary at anytime (Note 37). The undiscounted cash flow above represents coupon and principal payable to the holder of convertible redeemable preference shares based on the contractual terms.

6c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of other financial assets and financial liabilities (including financial assets at FVTPL and certain available-for-sale investments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions or dealer quotes for similar instruments;

- the fair value of conversion option derivative liability is measured using the binominal model.

The directors consider that the carrying amounts of the Group's financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

7. REVENUE

Revenue represents the amounts received and receivable for income arising from manufacture and sales of apparel and accessories, and distribution and retailing of apparel and footwear.

	Year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Manufacture and sales of apparel and accessories	551,924	913,424	1,094,892
Distribution and retailing of apparel and footwear	59,406	123,532	261,553
	611,330	1,036,956	1,356,445

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operating divisions for the Relevant Periods – 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 2006

	Manufacture and sales of apparel and accessories	Distribution and retailing of apparel and footwear	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
External sales	551,924	59,406	–	611,330
Inter-segment sales	6,328	1,084	(7,412)	–
Total	558,252	60,490	(7,412)	611,330

Inter-segment sales are charged at prevailing market rates.

RESULT				
Segment result	121,445	91	–	121,536
Unallocated income				3,538
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

Year ended 31 December 2006

BALANCE SHEET

	Manufacture and sales of apparel and accessories *HK$'000*	Distribution and retailing of apparel and footwear *HK$'000*	Consolidated *HK$'000*
ASSETS			
Segment assets	539,854	50,521	590,375
Unallocated corporate assets			264,432
Consolidated total assets			854,807
LIABILITIES			
Segment liabilities	(73,459)	(13,974)	(87,433)
Unallocated corporate liabilities			(422,163)
Consolidated total liabilities			(509,596)

OTHER INFORMATION

	Manufacture and sales of apparel and accessories *HK$'000*	Distribution and retailing of apparel and footwear *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Capital additions	71,491	20,608	–	92,099
Amortisation of prepaid lease payments	623	–	–	623
Depreciation of property, plant and equipment	8,073	2,166	–	10,239
Loss on disposal of property, plant and equipment	580	116	–	696

Year ended 31 December 2007

	Manufacture and sales of apparel and accessories	**Distribution and retailing of apparel and footwear**	**Eliminations**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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.

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 2007

BALANCE SHEET

	Manufacture and sales of apparel and accessories *HK$'000*	Distribution and retailing of apparel and footwear *HK$'000*	Consolidated *HK$'000*
ASSETS			
Segment assets	879,793	167,479	1,047,272
Unallocated corporate assets			606,955
Consolidated total assets			1,654,227
LIABILITIES			
Segment liabilities	(181,329)	(40,451)	(221,780)
Unallocated corporate liabilities			(849,887)
Consolidated total liabilities			(1,071,667)

OTHER INFORMATION

	Manufacture and sales of apparel and accessories *HK$'000*	Distribution and retailing of apparel and footwear *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Capital additions	32,190	41,306	–	73,496
Amortisation of prepaid lease payments	1,044	234	–	1,278
Amortisation of intangible asset	–	631	–	631
Depreciation of property, plant and equipment	11,111	3,896	–	15,007
Loss on disposal of property, plant and equipment	2	1,059	–	1,061
Allowance of trade receivables	2,098	1,128	–	3,226
Allowance of inventories	–	1,675	–	1,675

Year ended 31 December 2008

	Manufacture and sales of apparel and accessories	Distribution and retailing of apparel and footwear	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
External sales	1,094,892	261,553	–	1,356,445
Inter-segment sales	23,351	–	(23,351)	–
Total	1,118,243	261,553	(23,351)	1,356,445

Inter-segment sales are charged at prevailing market rates.

RESULT				
Segment result	98,194	(60,215)	–	37,979
Unallocated income				7,943
Unallocated corporate expense				(8,498)
Gain on disposal of a jointly controlled entity				15,134
Fair value change of an investment property				(3,371)
Gain on change in fair value of conversion option derivative liability				19,873
Discount on acquisition of additional interest in a subsidiary				4,922
Finance costs				(58,207)
Profit before tax				15,775
Income tax expense				(14,301)
Profit for the year				1,474

Year ended 31 December 2008

BALANCE SHEET

	Manufacture and sales of apparel and accessories	Distribution and retailing of apparel and footwear	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Segment assets	964,885	326,544	1,291,429
Unallocated corporate assets			352,814
Consolidated total assets			1,644,243
LIABILITIES			
Segment liabilities	(205,091)	(74,938)	(280,029)
Unallocated corporate liabilities			(781,944)
Consolidated total liabilities			(1,061,973)

OTHER INFORMATION

	Manufacture and sales of apparel and accessories	Distribution and retailing of apparel and footwear	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	5,277	96,563	–	101,840
Amortisation of prepaid lease payments	1,128	335	–	1,463
Amortisation of intangible assets	–	2,409	–	2,409
Depreciation of property, plant and equipment	15,495	13,723	–	29,218
Loss on disposal of property, plant and equipment	204	1,239	–	1,443
Allowance of trade receivables	694	540	–	1,234
Allowance of inventories	317	–	–	317
Impairment loss on goodwill	–	36,862	–	36,862
Impairment loss on intangible assets	–	2,138	–	2,138
Impairment loss on property, plant and equipment	–	23,425	–	23,425
Impairment loss on prepaid lease payments	–	2,405	–	2,405

Geographical segments

The analysis of the Group's revenue by geographical market, irrespective of the origin of the goods for each year is as follows:

	Year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Europe	476,284	722,370	657,982
The PRC, excluding Hong Kong	86,363	270,699	645,737
Others	48,683	43,887	52,726
	611,330	1,036,956	1,356,445

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, intangible asset and prepaid lease payment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets As at 31 December			Additions to property, plant and equipment, intangible asset and prepaid lease payments Year ended 31 December		
	2006	**2007**	**2008**	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The PRC	416,110	653,889	970,702	82,777	68,674	67,269
Hong Kong	127,743	188,624	178,452	9,308	4,779	29,627
Macau	45,737	165,793	63,486	13	42	41
Europe	785	38,966	78,789	1	1	4,903
	590,375	1,047,272	1,291,429	92,099	73,496	101,840

9. OTHER INCOME

	Year ended 31 December		
	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*
Bank interest income	3,298	7,482	7,792
Interest income from a jointly controlled entity	179	371	124
Total interest income	3,477	7,853	7,916
Net exchange gain	–	–	950
Delivery charge received from customers and suppliers	462	89	3
Gain on disposal of available-for-sale investments	–	278	168
Management fee income from jointly controlled entities	180	2,276	1,415
Management fee income from outsiders	–	1,214	3,989
Management fee income from a related company	–	–	990
Reversal of impairment loss on loans to jointly controlled entities	–	677	–
Royalty fee income	359	385	150
Sale of raw materials	–	745	1,749
Sundry income	1,435	1,578	3,215
	5,913	15,095	20,545

10. FINANCE COSTS

	Year ended 31 December		
	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*
Interest on:			
Bank borrowings and overdrafts wholly repayable			
– within five years	22,535	40,012	46,550
– over five years	387	–	–
Convertible redeemable preference shares	–	–	11,221
Obligations under finance leases	155	134	136
Loans from joint venturers of jointly controlled entities	179	371	300
	23,256	40,517	58,207

11. PROFIT BEFORE TAX

	Year ended 31 December		
	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*
Profit before tax has been arrived at after charging:			
Auditors' remuneration			
– Current year	1,125	1,822	1,757
– Underprovision of prior year	–	–	274
Cost of inventories recognised as an expense	391,801	695,531	990,988
Amortisation of intangible assets	–	631	2,409
Depreciation of property, plant and equipment	10,239	15,007	29,218
Amortisation of prepaid lease payments	623	1,278	1,463
Allowance for inventories	–	1,675	317
Impairment loss recognised in respect of trade receivables	–	3,226	1,234
Loss on disposal of property, plant and equipment	696	1,061	1,443
Change in fair value on financial assets at FVTPL	–	–	194
Net exchange loss	2,542	579	–
Staff costs			
– directors' remuneration *(note 13)*	8,967	12,372	15,709
– other staff costs	35,585	71,032	94,005
– share-based payments excluding directors	1,274	3,268	1,101
– retirement benefit scheme contribution excluding directors	3,026	4,647	7,456
	48,852	91,319	118,271

12. INCOME TAX EXPENSE

	Year ended 31 December		
	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*
Current tax:			
Hong Kong	11	16	20
Other jurisdictions	13,345	18,755	13,512
	13,356	18,771	13,532
Under(over)provision in prior years:			
Hong Kong	282	94	(12)
Other jurisdictions	(6)	(72)	(1,137)
	276	22	(1,149)
Deferred tax *(note 38)*:			
Current year	(336)	3,035	1,918
	13,296	21,828	14,301

Hong Kong Profits Tax is calculated at 17.5%, 17.5% and 16.5% of the estimated assessable profit for the years ended 31 December 2006, 2007 and 2008, respectively.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profit tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009.

Taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC have changed from preferential tax rate of 24% for the years ended 31 December 2006 and 2007 to 25% from 1 January 2008 onwards.

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 and tax concession during the Relevant Periods.

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

	Year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Profit before tax	90,789	129,952	15,775
Tax at the domestic income tax rate of 24%, 24% and 25% *(Note)*	21,790	31,189	3,944
Deferred tax on distributable earnings of PRC subsidiaries and jointly controlled entities	–	–	3,926
Tax effect of expenses not deductible for tax purpose	1,325	5,716	24,455
Tax effect of income not taxable for tax purpose	(295)	(21,979)	(13,847)
Tax effect on tax concession	(15,857)	(7,934)	(10,744)
Effect of different tax rates of subsidiaries operating in jurisdictions other than PRC	(1,033)	1,034	378
Tax effect of tax losses not recognised	7,026	14,190	9,147
Utilisation of other deductible temporary differences not recognised	–	(224)	(1,944)
Net under(over)provision in prior years	276	22	(1,149)
Others	64	(186)	135
Income tax expense for the year	13,296	21,828	14,301

Note: Majority of the operation of the Group is operated by its PRC subsidiaries which entitle to preferential tax rate of 24% for the years ended 31 December 2006 and 2007 and statutory tax rate of 25% for year ended 31 December 2008.

13. DIRECTORS' EMOLUMENTS

	Ngok Yan Yu	Tang Chui Yi, Janny	Wong Ming Yeung	Marcello Appella	Antonio Piva	Lam Hon Keung, Keith	Je Kin Ming	Lo Ming Chi, Charles	Pao Ping Wing	Kwan Hung Sang, Francis	Total 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK'000*
2006											
Fee	34	28	–	434	–	195	195	130	130	130	1,276
Other emoluments											
Salaries and other benefits	1,518	2,665	751	–	1,343	–	–	–	–	–	6,277
Contribution to retirement benefit schemes	12	12	12	235	–	–	–	–	–	–	271
Bonus *(note a)*	–	200	53	275	–	–	–	–	–	–	528
Share-based compensation	142	113	72	72	72	72	72	–	–	–	615
Total emoluments	1,706	3,018	888	1,016	1,415	267	267	130	130	130	8,967

	Ngok Yan Yu	Tang Chui Yi, Janny	Wong Ming Yeung	Tang Wai Ha	Marcello Appella	Antonio Piva	Lam Hon Keung, Keith	Je Kin Ming	Lo Ming Chi, Charles	Pao Ping Wing	Kwan Hung Sang, Francis	Total 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(note b)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK'000*
2007												
Fee	28	–	–	–	517	771	360	360	240	240	240	2,756
Other emoluments												
Salaries and other benefits	1,800	4,000	730	365	396	–	–	–	–	–	–	7,291
Contribution to retirement benefit schemes	12	12	12	3	119	–	–	–	–	–	–	158
Bonus *(note a)*	300	500	120	–	292	52	30	–	–	–	–	1,294
Share-based compensation	203	164	103	–	103	99	102	99	–	–	–	873
Total emoluments	2,343	4,676	965	368	1,427	922	492	459	240	240	240	12,372

	Ngok Yan Yu	Tang Chui Yi, Janny	Wong Ming Yeung	Tang Wai Ha	Marcello Appella	Antonio Piva	Lam Hon Keung, Keith	Je Kin Ming	Lo Ming Chi, Charles	Pao Ping Wing	Kwan Hung Sang, Francis	Total 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(note b)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK'000*
2008												
Fee	–	–	–	–	549	274	360	360	240	240	240	2,263
Other emoluments												
Salaries and other benefits	2,100	3,300	900	1,668	–	–	–	–	–	–	–	7,968
Contribution to retirement benefit schemes	12	12	12	12	–	–	–	–	–	–	–	48
Bonus *(note a)*	2,676	550	272	–	244	–	–	–	–	–	–	3,742
Share-based compensation	380	440	264	26	260	55	208	55	–	–	–	1,688
Total emoluments	5,168	4,302	1,448	1,706	1,053	329	568	415	240	240	240	15,709

Notes:

(a) The bonus paid to directors is determined on discretionary basis.

(b) Appointed on 9 October 2007 and resigned on 18 February 2009.

No director waived or agreed to waive any emoluments for the years ended 31 December 2006, 2007 and 2008. No emoluments have been paid to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

During the year ended 31 December 2006, 2007 and 2008, 4,300,000, 5,750,000 and 1,800,000 share options were granted to directors of the Company in respect of their services provided to the Group, further details of which are set out in note 49.

14. EMPLOYEES' EMOLUMENTS

Of the five highest emoluments in the Group, four were directors of the Company whose emoluments are included in Note 13 above. The emolument of the remaining one individual for the year ended 31 December 2006, 2007 and 2008 is as follows:

	Year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other benefits	1,119	1,321	1,440
Retirement benefits scheme contributions	118	12	12
Share-based compensation	–	–	10
	1,237	1,333	1,462

No employees waived or agreed to waive any emoluments for the years ended 31 December 2006, 2007 and 2008. No emoluments have been paid to the employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

15. DIVIDENDS

	Year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Dividend recognised as distribution during the year:			
Interim dividend of HK3 cents per share	7,586	8,479	8,491
2006 and 2007 final dividend of HK7 cents per share	–	17,757	19,812
	7,586	26,236	28,303

The directors do not recommend the payment of a final dividend for the year ended 31 December 2008. The final dividend of HK7 cents per share has been proposed by the directors for each of the year ended 31 December 2006 and 2007, and was approved by the shareholders in general meeting subsequently for each of the year ended 31 December 2006 and 2007.

16. 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

	Year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Earnings for the purpose of basic earnings per share	78,128	107,747	7,798
Adjustment to the share of result of a subsidiary based on potential dilution of its earnings per share in respect of convertible preference shares	–	(372)	(4,100)
Earnings for the purpose of diluted earnings per share	78,128	107,375	3,698

Number of shares

	Year ended 31 December		
	2006	**2007**	**2008**
	'000	*'000*	*'000*
	(Note)	*(Note)*	*(Note)*
Weighted average number of ordinary shares for the purpose of basic earnings per share	214,058	267,204	283,026
Effect of dilutive potential ordinary shares for share options	168	1,717	9
Weighted average number of ordinary shares for the purpose of diluted earnings per share	214,226	268,921	283,035

Note:

The computation of diluted earnings per share does not assume the exercise of certain outstanding share options as the respective exercise price is higher than the applicable average market price for year 2006, 2007 and 2008.

The weighted number of ordinary shares for the purpose of basic earnings per share has not been adjusted for the open offer of shares (as detailed in note Subsequent Events) as the subscription price per offer is higher than the share price immediately before the subscription date.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Construction in progress HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST							
At 1 January 2006	81,013	20,061	2,099	13,407	7,618	6,619	130,817
Exchange realignment	3,240	802	9	533	187	103	4,874
Additions	18,051	17,240	5,324	4,714	15,276	958	61,563
Transfer	38,103	(38,103)	–	–	–	–	–
Disposals	–	–	(1,525)	–	(1,162)	(1,665)	(4,352)
At 31 December 2006	140,407	–	5,907	18,654	21,919	6,015	192,902
Exchange realignment	9,662	704	327	1,318	1,312	415	13,738
Additions	7,398	23,562	9,230	2,349	12,068	5,254	59,861
Disposals	–	–	(529)	(160)	(669)	–	(1,358)
At 31 December 2007	157,467	24,266	14,935	22,161	34,630	11,684	265,143
Exchange realignment	12,828	3,327	1,195	1,823	2,094	504	21,771
Additions	291	50,941	22,054	843	18,428	3	92,560
Transfer	2,021	(2,021)	–	–	–	–	–
Transfer from investment property	42,697	–	–	–	–	–	42,697
Acquired on acquisition of additional interest in a former jointly controlled entity	–	–	588	–	1,517	114	2,219
Disposals	–	–	(4,640)	–	(2,221)	(1,264)	(8,125)
Disposal of a jointly controlled entity	–	–	(1,620)	–	(3,941)	(146)	(5,707)
Reclassified as held for sale	–	–	(2,608)	–	(2,333)	–	(4,941)
At 31 December 2008	215,304	76,513	29,904	24,827	48,174	10,895	405,617

	Leasehold land and buildings	Construction in progress	Leasehold improvement	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
DEPRECIATION AND IMPAIRMENT							
At 1 January 2006	3,087	–	1,040	1,437	2,153	1,388	9,105
Exchange realignment	61	–	2	27	25	14	129
Provided for the year	3,639	–	1,753	1,212	2,404	1,231	10,239
Eliminated on disposals	–	–	(1,039)	–	(225)	(413)	(1,677)
At 31 December 2006	6,787	–	1,756	2,676	4,357	2,220	17,796
Exchange realignment	721	–	48	264	303	159	1,495
Provided for the year	4,014	–	2,457	1,685	5,097	1,754	15,007
Eliminated on disposals	–	–	(41)	(21)	(76)	–	(138)
At 31 December 2007	11,522	–	4,220	4,604	9,681	4,133	34,160
Exchange realignment	1,073	–	405	354	419	188	2,439
Provided for the year	8,056	–	8,895	2,043	8,387	1,837	29,218
Eliminated on disposals	–	–	(2,177)	–	(490)	(840)	(3,507)
Eliminated on disposal of a jointly controlled entity	–	–	(405)	–	(1,051)	(11)	(1,467)
Impairment loss recognised	6,422	11,296	2,497	–	2,910	300	23,425
Reclassified as held for sale	–	–	(879)	–	(1,204)	–	(2,083)
At 31 December 2008	27,073	11,296	12,556	7,001	18,652	5,607	82,185
CARRYING VALUES							
At 31 December 2006	133,620	–	4,151	15,978	17,562	3,795	175,106
At 31 December 2007	145,945	24,266	10,715	17,557	24,949	7,551	230,983
At 31 December 2008	188,231	65,217	17,348	17,826	29,522	5,288	323,432

The Group's leasehold land and buildings are situated in the PRC under medium term lease.

The carrying values of motor vehicles include an amount of approximately HK$810,000, HK$3,024,000 and HK$2,065,000 in respect of assets held under finance leases as at 31 December 2006, 2007 and 2008, respectively. Also, the carrying values of furniture, fixtures and equipment include an amount of approximately HK$127,000, HK$93,000 and HK$32,000 in respect of assets held under finance leases as at 31 December 2006, 2007 and 2008, respectively. Impairment loss on property, plant and equipment recognised during the year ended 31 December 2008 is detailed in note 21.

18. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
At 1 January 2006, 31 January 2006 and 1 January 2007	–
Additions	56,181
Increase in fair value recognised in the consolidated income statement	13,249
Exchange realignment	2,075
At 31 December 2007	71,505
Transfer to property, plant and equipment	(42,697)
Decrease in fair value recognised in the consolidated income statement	(3,371)
Exchange realignment	4,448
At 31 December 2008	29,885

The fair value of the Group's investment property at 31 December 2007 and 2008 has been arrived at on the basis of a valuation carried out on that date by Asset Appraisal Limited and GA Appraisal Limited respectively. Both valuers, which are members of the Hong Kong Institute of Valuers, are independent qualified professional valuers not connected with the Group and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

All of the Group's property interests held under operating leases with medium lease term in the PRC are for rental purposes and are measured using the fair value model and are classified and accounted for as investment properties.

19. INTANGIBLE ASSETS

	Franchise	Trademarks	Total
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1 January 2006, 31 December 2006 and 1 January 2007	–	–	–
Additions	10,817	–	10,817
At 31 December 2007	10,817	–	10,817
Additions	–	4,789	4,789
Arising from acquisition of additional interest in a former jointly controlled entity	–	2,236	2,236
Exchange realignment	–	(581)	(581)
At 31 December 2008	10,817	6,444	17,261
AMORTISATION AND IMPAIRMENT			
At 1 January 2006, 31 December 2006 and 1 January 2007	–	–	–
Provided for the year	631	–	631
At 31 December 2007	631	–	631
Provided for the year	1,082	1,327	2,409
Exchange realignment	–	(94)	(94)
Impairment losses recognised	1,360	778	2,138
At 31 December 2008	3,073	2,011	5,084
CARRYING AMOUNT			
At 31 December 2006	–	–	–
At 31 December 2007	10,186	–	10,186
At 31 December 2008	7,744	4,433	12,177

During the year ended 31 December 2007, the Group entered into a franchise agreement with an independent third party for the grant of franchise and distribution right in relation to footwear and apparel in the PRC for a period of ten years up to May 2017 at a consideration of approximately HK$10,817,000 (EUR1,000,000). The franchise and distribution right is amortised over the term of the franchise agreement.

During the year ended 31 December 2008, the Group has acquired trademarks of "Bond Street" and "Fortuny House Club" at an aggregate consideration of approximately HK$4,789,000 (EUR390,000) from an independent third party. The trademarks are amortised over the term of the trademarks agreements.

As detailed in the Subsequent Events, on 3 December 2008, the Company entered into a conditional sale agreement to dispose 100% equity interest in Well Metro Group Limited ("Well Metro") and its subsidiaries (collectively referred as "Well Metro Group"). As the future cash flows from Well Metro Group until disposal are likely to be negligible, the value in use of the Well Metro Group will mainly consist of the net disposal proceeds. In view of this, the management considered that the disposal plan is an indicator for the impairment of intangible assets of the Group. Impairment loss on the intangible assets recognised during the year ended 31 December 2008 is detailed in note 21.

20. GOODWILL

	HK$'000
COST	
At 1 January 2006, 31 December 2006 and 1 January 2007	–
Arise on acquisition of additional interest in a subsidiary *(note 41)*	20,800
At 31 December 2007	20,800
Arise on acquisition of additional interest in a former jointly controlled entity *(note 41)*	16,062
At 31 December 2008	36,862
IMPAIRMENT	
At 1 January 2006, 31 December 2006, 1 January 2007 and 31 December 2007	–
Impairment loss recognised during the year	(36,862)
At 31 December 2008	(36,862)
CARRYING AMOUNTS	
At 31 December 2006	–
At 31 December 2007	20,800
At 31 December 2008	–

On 26 June 2007, the Group acquired additional equity interests in Well Metro from a minority shareholder, at a cash consideration of HK$20,800,000. Since Well Metro had a net liability at the acquisition date, the total cash consideration of HK$20,800,000 paid by the Group was recognised as goodwill.

On 28 April 2008, the Group acquired additional 50% issued share capital of STF (China) Limited ("STF"), which became wholly owned subsidiary of the Group, at a consideration of approximately HK$7,380,000 (EUR 600,000). Before the acquisition, the Group recognised its 50% interests in STF as jointly controlled entity using proportionate consolidation. This acquisition of additional 50% equity interest has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK$16,062,000.

Impairment loss of nil, nil and HK$36,862,000 recognised during the years ended 31 December 2006, 2007 and 2008, respectively, is detailed in note 21.

21. IMPAIRMENT TEST ON GOODWILL/INTANGIBLE ASSETS/PROPERTY, PLANT AND ENQUIPMENT/ PREPAID LEASE PAYMENTS

For the purposes of impairment testing, goodwill set out in note 20 has been allocated to an individual cash generating unit ("CGU"), Well Metro, which is under distribution and retailing of apparel and footwear segment.

The basis of the recoverable amounts of the CGU and their major underlying assumptions adopted for the impairment testing for the year ended 31 December 2007 are summarised below:

The recoverable amount of Well Metro has been determined based on a value in use calculation. That calculation uses cash flow projection based on financial budget approved by management covering a three-year period at a discount rate of 12% per annum for Well Metro. Cash flow beyond the three-year period are extrapolated at zero growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculation relate to the estimation of cash inflows and outflows which include budgeted sales and budgeted gross margin, which is determined based on past performance and management's expectation for the market development. Management believes that any reasonably possible change in any of these assumptions will not cause the aggregate carrying amounts of the above CGU to exceed the aggregate recoverable amounts of the above CGU.

During the year ended 31 December 2007, the management of the Group recognised no impairment of goodwill as the performance of Well Metro was satisfactory and positive net asset value was noted as at 31 December 2007.

As detailed in the Subsequent Events, on 3 December 2008, the Company entered into a conditional sale agreement to dispose of 100% equity interest in Well Metro for cash consideration of HK$100 million. The disposal is subject to the approval by independent shareholders at an extraordinary general meeting.

An impairment loss has been recognised for the CGU as the recoverable amount of the CGU, determined based on the cash consideration of HK$100 million, is less than its net carrying amount. The impairment loss was allocated to reduce the carrying amount of assets of the CGU in the following order:

(a) first, to reduce the carrying amount of goodwill of HK$36,862,000 allocated to the CGU; and

(b) then, to the non-current assets of the CGU pro rata on the basis of the carrying amount of intangible assets, property, plant and equipment and prepaid lease payments of the CGU of HK$2,138,000, HK$23,425,000 and HK$2,405,000, respectively

22. PREPAID LEASE PAYMENTS

	Year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
The Group's prepaid lease payments comprise:			
Medium-term leasehold land in the PRC	60,637	66,300	67,541
Analysed for reporting purposes as:			
Current asset	1,246	1,389	1,497
Non-current asset	59,391	64,911	66,044
	60,637	66,300	67,541

The amounts represent land use rights located in the PRC and is released to consolidated income statement over the term of the relevant rights of 50 years. Impairment loss on prepaid lease payments recognised during the year ended 31 December 2008 is detailed in note 21.

As at 31 December 2006, the Group was in the progress to obtain land use right certificates amounting to approximately HK$30,536,000. All land use right certificates were obtained by the Group as at 31 December 2007 and 2008.

23. INTERESTS IN JOINTLY CONTROLLED ENTITIES

As at 31 December 2006, 2007 and 2008, the Group had interests in the following principal jointly controlled entities:

Name of entity	Place of incorporation/ operation	Class of shares held	Proportion of nominal values of issued share capital indirectly held by the Group 2006	2007	2008	Principal activity
STF	Hong Kong	Ordinary Shares	35.0%	46.7%	*(note 1)*	Investment holding
STF (Nanjing)	PRC	Registered capital	35.0%	46.7%	*(note 2)*	Sourcing, distribution of apparel and footwear
時帝夫(上海)	PRC	Registered capital	35.0%	46.7%	*(note 2)*	Sourcing, distribution of apparel and footwear
上海熙絲黎	PRC	Registered capital	–	46.7%	50.0%	Sourcing, distribution of apparel and footwear
恆賽爾	PRC	Registered capital	50.0%	50.0%	50.0%	Garment Manufacturing and trading
Lotto	Hong Kong	Ordinary Shares	35.0%	46.7%	*(note 3)*	Investment holding
Lotto (Nanjing)	PRC	Registered capital	35.0%	46.7%	*(note 4)*	Sourcing, distribution of apparel and footwear
樂途(上海)	PRC	Registered capital	35.0%	46.7%	*(note 4)*	Sourcing, distribution of apparel and footwear

Notes:

1. STF was a jointly controlled entity of the Company before 28 April 2008. The Company acquired remaining 50% equity interest in STF on 28 April 2008 and STF became a wholly owned subsidiary of the Company. Details of the acquisition are disclosed in note 41.

2. These are wholly owned subsidiaries of STF, a former jointly controlled entity of the Company. The Company acquired remaining 50% equity interest in STF on 28 April 2008 and these companies became wholly owned subsidiaries of the Group. Details of the acquisition are disclosed in note 41.

3. The company was a jointly controlled entity of the Company before July 2008. The Company disposed of its 50% shareholdings in Lotto to a joint venturer of Lotto on in July 2008. Details of the disposal are disclosed in note 42.

4. These are wholly owned subsidiaries of Lotto, a former jointly controlled entity of the Company. The Company disposed of its 50% equity interest in Lotto to a joint venture of Lotto on 30 June 2008. Details of the disposal are disclosed in note 42.

The table above lists the jointly controlled entitles of the Group which, in the opinion of the directors of the Company, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors of the Company, result in particulars of excessive length.

The Group's share of the assets, liabilities, income and expenses of the jointly controlled entities accounted for by the Group using proportionate consolidation are set out below:

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Current assets	45,138	88,217	59,117
Non-current assets	9,155	15,539	5,428
Current liabilities	51,498	92,629	38,669
Non-current liabilities	5,167	12,345	22,414

	Year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Income	21,282	87,724	63,869
Expenses	(30,207)	(88,930)	(73,527)

24. LOAN TO A JOINTLY CONTROLLED ENTITY/LOANS TO JOINTLY CONTROLLED ENTITIES

Loan to a jointly controlled entity include an amount of approximately HK$5,168,000 under non-current assets as at 31 December 2006 and 2007 which was unsecured, interest bearing at 5% per annum and was not repayable within twelve months from the balance sheet date. As disclosed in note 41, the Group acquired additional 50% of the issued share capital of STF during the year ended 31 December 2008, it became a wholly owned subsidiary of the Company. Loan to this former jointly controlled entity under non-current asset was fully eliminated at consolidation as at 31 December 2008.

As at 31 December 2006, 2007 and 2008, loans to jointly controlled entities under current assets include an amount of HK$1,573,000, HK$2,250,000 and Nil, respectively, which is unsecured, interest bearing at 5% per annum and repayable within one year. The remaining balances are unsecured, non-interest bearing and repayable within one year.

25. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Unlisted securities			
– Funds in Hong Kong *(note a)*	7,384	6,044	2,791
– Fund in the PRC *(note b)*	–	–	230
– Equity securities in PRC *(note c)*	–	–	575
	7,348	6,044	3,596
Analysed for reporting purpose as:			
Non-current asset	5,424	2,870	575
Current asset	1,960	3,174	3,021
	7,384	6,044	3,596

Notes:

(a) At 31 December 2006, the funds represent HSBC 107 Capital Guaranteed Asia Fund, Hang Seng 100% and 108% Capital Guaranteed HK Equity Fund. At 31 December 2007, the funds represent Hang Seng 100% and 108% Capital Guaranteed HK Equity Fund. At 31 December 2008, the fund represents Hang Seng 108% Capital Guaranteed HK Equity Fund. The potential return of 100% and 108% Capital Guaranteed HK Equity Fund at years ended 31 December 2006, 2007 and 2008 includes full repayment of investment cost plus a return linked to the performance of certain equity index in Hong Kong and Asia with a guaranteed return of 8% over the investment cost. They are measured at fair value at balance sheet date.

(b) The fund represents an unlisted open-ended fund established in the PRC, which is measured at fair value at balance sheet date.

(c) The unlisted equity securities are issued by a private entity established in the PRC. They are measured at cost less accumulated impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

26. INVENTORIES

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	42,524	20,119	155,898
Work in progress	54,537	133,538	75,385
Finished goods	10,254	24,902	70,316
	107,315	178,559	301,599
Less: Reclassified to assets held for sale	–	–	(9,755)
	107,315	178,559	291,844

27. TRADE RECEIVABLES

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	188,065	247,156	409,337
Less: allowance for doubtful debts	(133)	(3,397)	(4,585)
	187,932	243,759	404,752
Less: Reclassified to assets held for sale	–	–	(2,542)
	187,932	243,759	402,210

The Group allows an average credit periods normally ranging from 60 days to 90 days (after invoice date) to its trade customers.

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

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
0 – 90 days	178,755	223,661	337,606
91 – 180 days	6,700	8,810	56,551
181 – 360 days	619	9,834	9,307
Over 360 days	1,858	1,454	1,288
	187,932	243,759	404,752

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$19,371,000, HK$31,545,000 and HK$50,950,000 which are past due at 31 December 2006, 2007 and 2008, respectively 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.

Aging of trade receivables which are past due but not impaired

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
0-90 days	10,194	11,447	23,067
91-180 days	6,700	8,810	17,288
181-360 days	619	9,834	9,307
Over 360 days	1,858	1,454	1,288
Total	19,371	31,545	50,950

Movement in the allowance for doubtful debts

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Balance at beginning of the year	133	133	3,397
Exchange realignment	–	38	(46)
Impairment losses recognised on receivables	–	3,226	1,234
Balance at end of the year	133	3,397	4,585

28. AMOUNT DUE FROM A MINORITY SHAREHOLDER

The amount due from a minority shareholder as at 31 December 2006 represented trade receivable from Morgan S.A., which was unsecured, interest free and the Group allowed a credit period of 90 days for sales made to this minority shareholder. This amount was fully settled in 2007.

The following is an aged analysis of the amount due from a minority shareholder as at 31 December 2006, 2007 and 2008.

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
0 – 90 days	1,235	–	–
91 – 180 days	26	–	–
181 – 360 days	39	–	–
Total	1,300	–	–

At 31 December 2006, included in the amount due from a minority shareholder is aggregate carrying amount of HK$65,000 which are past due at the balance sheet 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. The balances have been subsequently settled in 2007.

Aging of amount due from a minority shareholder which are past due but not impaired

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
91-180 days	26	–	–
181-360 days	39	–	–
Total	65	–	–

In December 2007, Well Metro, one of the non-wholly owned subsidiaries of the Company issued certain ordinary shares to a minority shareholder at HK$6,689,000, which remains unsettled as at year ended 31 December 2007. The amount was fully settled during the year ended 31 December 2008.

29. AMOUNT DUE FROM A RELATED COMPANY

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Name of related company			
Sergio Tacchinni International S. P. A. (formerly known as H4T S.r.l.) *(Note)*	–	174,388	99,171

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 this related company (net of impairment) at the balance sheet date is as follows:

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
0 – 90 days	–	83,132	37,523
91 – 180 days	–	85,036	7,476
181 – 360 days	–	6,220	54,172
Total	–	174,388	99,171

Included in the Group's amount due from a related company is aggregate carrying amount of approximately nil, HK$20,070,000 and HK$60,768,000 which is past due at 31 December 2006, 2007 and 2008, respectively 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.

Ageing of amount due from a related company which is past due but not impaired

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
91-180 days	–	13,850	6,596
181-360 days	–	6,220	54,172
Total	–	20,070	60,768

30. AMOUNTS DUE FROM (TO) JOINTLY CONTROLLED ENTITIES/AMOUNTS DUE TO JOINT VENTURERS OF JOINTLY CONTROLLED ENTITIES AND AMOUNTS DUE FROM A FORMER JOINTLY CONTROLLED ENTITY

The amounts are unsecured, interest free and repayable on demand.

31. PLEDGED BANK DEPOSITS/BANK DEPOSITS WITH ORIGINAL MATURITY OF MORE THAN THREE MONTHS/BANK BALANCES AND CASH

Pledged bank deposits are used to secure the Group's banking facilities. The pledged deposits carry average fixed interest rate of 3.1%, 2.6% and 1.22% per annum for the year ended 31 December 2006, 2007 and 2008, respectively. Bank deposits with original maturity of more than three months carry interest at market rates which range from 2.0% to 4.0%, 3.3% to 3.7% and 2.3% to 3.5% per annum for the year ended 31 December 2006, 2007 and 2008, respectively. The bank balances carry interest at market rates which range from 2.0% to 4.0%, 1.0% to 2.0% and 0.01% to 0.7% per annum for the year ended 31 December 2006, 2007 and 2008, respectively.

The Group has bank balances and deposits of approximately HK$165,154,000 HK$378,560,008 and HK$255,492,000 as at 31 December 2006, 2007 and 2008, respectively, where the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

32. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES ASSOCIATES WITH ASSETS CLASSIFIED AS HELD FOR SALE

In December 2007, Hembly Italia S.r.l, one of the wholly-owned subsidiaries of the Company, acquired 100% interest in Pianeta Terra S.r.l. ("PT") for an amount of approximately HK$28,450,000 (EUR2.5 millions). PT was incorporated in 2007 and owns a patent in Europe contributed by the former shareholder. The Group acquired PT with an intention to expand its retail business in Europe. However, upon the completion of acquisition, the director of the Company decided to dispose of PT, PT is therefore accounted for as held for sale on initial recognition. In February 2008, PT was disposed of to an independent third party. No gain or loss was resulted from the disposal of PT.

On 31 December 2008, the Board of Directors decided to dispose of one of the Group's jointly controlled entities, Benlim, which principally engaged in the business of sourcing and distribution of apparel and footwear. The Group has not recognised any impairment losses upon the classification of the disposal as held for sale.

The Group's share of major classes of assets and liabilities of Benlim as at 31 December 2008, which have been presented separately in the consolidated balance sheet, are as follows:

	31.12.2008
	HK$'000
Property, plant and equipment	2,858
Inventories	9,755
Trade receivables	2,542
Deposits, prepayments and other receivables	6,742
Amounts due from group companies	6,122
Bank balances and cash	3,483
	31,502
Less: Amounts due from group companies	(6,122)
Assets classified as held for sale	25,380
Trade payables	(308)
Other payables and accruals	(2,340)
Amount due to a joint venturer of a jointly controlled entity	(22,465)
Amounts due to group companies	(3,500)
	(28,613)
Less: Amounts due to group companies	3,500
Liabilities associated with assets classified as held for sale	(25,113)

The Group has entered into a sale agreement with the joint venture of Benlim in 2009. The disposal became effective on 1 January 2009.

33. TRADE PAYABLES

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

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
0 – 90 days	54,924	111,138	104,953
91 – 180 days	2,535	15,138	27,364
181 – 360 days	731	4,446	11,603
Over 360 days	441	538	4,980
	58,631	131,260	148,900
Less: Reclassified to liabilities associated with assets classified as held for sale	–	–	(308)
	58,631	131,260	148,592

The average credit period on purchases of goods is 90 days.

34. LOANS FROM JOINT VENTURERS OF JOINTLY CONTROLLED ENTITIES

At 31 December 2006, loans from joint venturers of jointly controlled entities included an amount of approximately HK$5,168,000, which was unsecured, interest bearing at 5% per annum and not repayable within twelve months from the balance sheet date.

At 31 December 2006 and 2007, loans from joint venturers of jointly controlled entities include an amount of HK$2,250,000 and HK$7,418,000 respectively which was unsecured, interest bearing at 5% and repayable on demand. The remaining were unsecured, non-interest bearing and repayable on demand. The loans were fully settled during the year ended 31 December 2008.

35. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments As at 31 December			Present value of minimum lease payments As at 31 December		
	2006	**2007**	**2008**	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:						
Within one year	368	1,048	891	328	910	798
More than one year, but not exceeding two years	368	891	761	328	798	713
More than two years, but not exceeding three years	211	761	516	187	713	506
More than three years, but not exceeding four years	81	516	–	75	508	–
More than four years, but not exceeding five years	6	–	–	6	–	–
	1,034	3,216	2,168	924	2,929	2,017
Less: Future finance charges	(110)	(287)	(151)	–	–	–
Present value of lease obligations	924	2,929	2,017	924	2,929	2,017
Less: Amounts due for settlement within one year shown under current liabilities				(328)	(910)	(798)
Amounts due for settlement after one year				596	2,019	1,219

It is the Group's policy to lease certain of its motor vehicles and furniture, fixtures and equipment under finance leases. The average lease term is 5 years. For the years ended 31 December 2006, 2007 and 2008, the average effective borrowing rates were 3.2%. Interest rates are fixed at the contract dates. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's title to the leased assets.

36. BANK BORROWINGS

During the year ended 31 December 2007, the Group has obtained a syndicated unsecured loan in the amount of HK$200 million. The loan was for a 3 years transferrable term loan facility, beared interest at HIBOR plus 1.55% per annum and is repayable by the following 2 tranches, namely: (i) tranche 1 in the amount of HK$133.33 million repayable by 9 equal quarterly installments commencing 12 months from the date of the loan; and (ii) tranche 2 in the amount of HK$66.67 million being repayable and re-borrowable on a revolving basis during the period between the date of the loan and one month prior to the loan's maturity, subject to non-occurrence of events of default and/or potential default of the loan, with all outstanding principal to be repaid in one lump sum at the loan's maturity. The effective interest rate of this syndicated unsecured loan was 8.0% as at 31 December 2007. The proceeds were used to finance general working capital and capital expenditure of the Group. The loan has been fully repaid during 2008.

During the year ended 31 December 2008, the Group has raised an interest-bearing loan in the amount of HK$156 million and it bears interest at HIBOR plus 3% per annum and repayable on demand.

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Bank borrowings	392,581	683,137	552,559
Bank overdrafts	76	607	26,073
	392,657	683,744	578,632
Analysed as:			
Secured	333,777	387,134	381,977
Unsecured	58,880	296,610	196,655
	392,657	683,744	578,632
Carrying amount of bank borrowings repayable:			
On demand and within one year	287,871	426,009	345,932
More than one year, but not exceeding two years	99,522	172,724	206,627
More than two years, but not exceeding three years	2,422	82,748	–
More than three years, but not exceeding four years	1,215	909	–
More than four years, but not exceeding five years	852	747	–
More than five years	699	–	–
	392,581	683,137	552,559
Less: Amounts due within one year shown under current liabilities	(287,871)	(426,009)	(345,932)
Amounts due after one year shown under non-current liabilities	104,710	257,128	206,627

The Group's variable-rate borrowings, other than the HK$200 million syndicated loan and HK$156 million loan mentioned above, carry interest at HIBOR. Interest is repriced every year.

At 31 December 2006, 2007 and 2008, the exposure of the Group's fixed-rate borrowings amounting to approximately HK$20,000,000, HK$48,206,000 and HK$208,307,000, respectively. The contractual maturity dates are more than one year, but not exceeding two years for borrowings at 31 December 2006 and 2007. For fixed rate borrowings as at 31 December 2008, approximately of HK$1,680,000 and HK$206,627,000 are due within one year and two years, respectively.

The bank borrowings are secured by the assets of the Group as disclosed in note 44.

The range of effective interest rates, which is same as interest rates carried on the Group's bank loans are as follows:

	As at 31 December		
	2006	**2007**	**2008**
Effective interest rate			
Fixed-rate borrowings	5.4%	5.7%	6.5% to 8.5%
Variable-rate borrowings	5.6% to 7.8%	5.0% to 8.0%	3.0% to 6.0%

The Group's borrowings that are denominated in currencies other than the functional currency of the Group entity are set out below:

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Denominated			
– RMB	–	7,177	–
– USD	260,015	130,769	151,783
– Euro	–	1,584	5,803

37. CONVERTIBLE REDEEMABLE PREFERENCE SHARES

On 28 December 2007, Well Metro has issued 1,500 shares of convertible redeemable preference share with a yield to maturity in an amount equal to 5% of the issue price per annum, compounded annually, to an independent third party at a consideration of approximately HK$90,859,000 ("Consideration"). One convertible redeemable preference share can be converted to one ordinary share of Well Metro at any time after date of issuance, subject to certain adjustments including adjustment on conversion ratio based on actual profit of Well Metro and its subsidiaries, and is redeemable at an amount equal to Consideration plus any accrued yield by the holder after three years from date of issuance.

At 31 December 2007 and 2008, the convertible redeemable preference shares contain two components, liability component of approximately HK$68,071,000 and HK$79,292,000 and convertible option derivative of approximately HK$22,022,000 and HK$2,149,000, respectively. The relevant transaction costs for the issuance of the convertible redeemable preference shares of approximately HK$766,000 are included in the liability component. At 31 December 2007 and 2008, the effective interest rate of the liability component is 15.6%. The conversion option derivative is measured at fair value with changes in fair value recognised in consolidated income statement.

At 31 December 2008, the fair value of convertible option derivative decreased from HK$22,022,000 to HK$2,149,000. The gain on change in fair value of HK$19,873,000 was recognised in consolidated income statement immediately.

The inputs and methodology used for the calculation of fair values of the convertible option derivative are as follows:

Methodology	2007 Binomial model	2008 Binomial model
Risk-free rate	2.825%	0.547%
Time to maturity	3 years	2 years
Dividend yield	5%	0%
Volatility	80.0%	65.85%

The volatility used as at 31 December 2007 and 2008 was based on the 250 days and 400 days volatility of comparable companies price return respectively.

38. DEFERRED TAXATION

The following are the deferred tax (liabilities) assets recognised by the Group and movements thereon during the Relevant Periods:

	Accelerated tax depreciation *HK$'000*	Intangible asset *HK$'000*	Revaluation of investment property *HK$'000*	Tax losses *HK$'000*	Withholding tax on distributable earnings of PRC subsidiaries *HK$'000*	Total *HK$'000*
At 1 January 2006	(336)	–	–	–	–	(336)
(Charge) credit to consolidated income statement *(note 12)*	(669)	–	–	1,005	–	336
At 31 December 2006	(1,005)	–	–	1,005	–	–
Exchange realignment	10	–	(99)	–	–	(89)
(Charge) credit to consolidated income statement *(note 12)*	(37)	–	(3,312)	314	–	(3,035)
At 31 December 2007	(1,032)	–	(3,411)	1,319	–	(3,124)
Exchange realignment	(27)	–	(238)	–	–	(265)
Acquisition of additional interest in a former jointly controlled entity *(note 41)*	–	(559)	–	–	–	(559)
(Charge) credit to consolidated income statement *(note 12)*	561	559	1,083	(195)	(3,926)	(1,918)
Effect of change in tax rate	51	–	–	(51)	–	–
At 31 December 2008	(447)	–	(2,566)	1,073	(3,926)	(5,866)

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offsets. The following is the analysis of the deferred tax balances for financial reporting purpose:

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax assets	–	287	626
Deferred tax liabilities	–	(3,411)	(6,492)
	–	(3,124)	(5,866)

As at 31 December 2006, 2007 and 2008, the Group has unused tax loss of approximately HK$39,600,000, HK$99,741,000 and HK$110,213,000, respectively, available for offset against future profits. A deferred tax asset has been recognised in respect of tax losses of approximately HK$4,188,000, HK$5,203,000 and HK$6,501,000 during the years ended 31 December 2006, 2007 and 2008, respectively. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$35,412,000, HK$94,538,000 and HK$103,712,000 during the years ended 31 December 2006, 2007 and 2008, respectively, due to the unpredictability of future profit streams of the relevant subsidiaries. The unrecognised tax losses will be expired in:

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Tax losses			
2011	5,439	5,439	5,439
2012	–	15,032	10,181
2013	–	–	20,265
	5,439	20,471	35,885

All other tax losses may be carried forward indefinitely.

39. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December		
	2006	**2007**	**2008**
	Non-current Assets	**Non-current Assets**	**Non-current Assets**
	HK$'000	*HK$'000*	*HK$'000*
Equity linked note *(note a)*	–	–	2,731
Foreign currencies yield differential accrual perpetual index notes *(note b)*	–	–	3,237
	–	–	5,968

Notes:

(a) The maturity date of the investments is 1 July 2013. The periodic interest payments of the investments are linked to the performance of a basket of equity stocks listed in Taiwan. The investment was designated at fair value through profit or loss on initial recognition. During the year ended 31 December 2008, a loss of HK$311,000 arising from changes in fair value was recognised in the consolidated income statement.

(b) The maturity date of the investments is 5 May 2011. The investments have zero interest payments and the redemption value is linked to the yield difference on a pool of foreign currencies captured by the FX Yield Differential Accrual Perpetual Index. The investment was designated at fair value through profit or loss on initial recognition. During the year ended 31 December 2008, a gain of HK$117,000 arising from changes in fair value was recognised in the consolidated income statement.

40. SHARE CAPITAL

	Number of share	**Amount**
		HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2006	1,000,000	100
Increase on 13 June 2006	1,999,000,000	199,900
At 31 December 2006, 31 December 2007 and 31 December 2008	2,000,000,000	200,000
Issued and fully paid:		
At 1 January 2006	1	–
Issue of shares upon Group Reorganisation	39,999,999	4,000
Issue of shares upon the placing and public offer	70,080,000	7,008
Issue of shares on capitalisation of share premium account	140,000,000	14,000
Exercise of share options	2,800,000	280
At 31 December 2006	252,880,000	25,288
Issue of shares	23,800,000	2,380
Exercise of share options	6,150,000	615
At 31 December 2007	282,830,000	28,283
Exercise of share options	200,000	20
At 31 December 2008	283,030,000	28,303

The following changes in the share capital of the Company took place during the years ended 31 December 2006, 2007 and 2008:

(a) Pursuant to a resolution passed on 13 June 2006, the authorised share capital of the Company was increased from HK$100,000 to HK$200,000,000 by the creation of an additional 1,999,000,000 shares. The new shares rank pari passu in all respects with the existing shares.

On the same date, as consideration for the acquisition of the entire issued share capital of Full Prosper, the Company issued an aggregate of 39,999,999 shares of HK$0.1 each, credited as fully paid under the Group Reorganisation.

(b) 140,000,000 shares of HK$0.10 each in the Company were allotted and issued as fully paid to the shareholders of the Company whose names appeared on the register of members at the close of business on 14 June 2006 in proportion to their respective shareholdings by the capitalisation of an amount of HK$14,000,000 from the amount standing to the credit of the share premium account of the Company.

(c) On 12 July 2006, 70,080,000 new ordinary shares of the Company of HK$0.10 each were issued at HK$1.70 per share for cash through an initial public offering by way of placing and public offer.

(d) During the year ended 31 December 2006, 2,800,000 new ordinary shares of the Company of HK$0.10 each were issued at an exercise price of HK$1.88 per share upon the exercise of share options.

(e) Pursuant to a subscription agreement entered on 29 June 2007, the Company issued 23,800,000 new ordinary shares of HK$0.10 each at HK$4.29 per share for cash.

(f) During the year ended 31 December 2007, a total of 6,150,000 ordinary shares of the Company were issued upon the exercise of 1,000,000, 4,800,000, and 350,000 share options at an exercise price of HK$1.88, HK$2.90 and HK$2.60, respectively, upon the exercise of share options.

(g) During the year ended 31 December 2008, 200,000 new ordinary shares of the Company of HK$0.10 each were issued at an exercise price of HK$2.90 per share upon the exercise of share options.

41. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY/FORMER JOINTLY CONTROLLED ENTITY

On 26 June 2007, the Group acquired additional equity interests in Well Metro Group from a minority shareholder, at a consideration of HK$20,800,000. Goodwill of HK$20,800,000 arise on the acquisition of additional interest in a subsidiary is detailed in note 20.

On 28 April 2008, the Group acquired additional 50% equity interest in STF at a consideration of approximately HK$7,380,000 (EUR600,000). Before the acquisition, the Group recognised its 50% interests in STF as jointly controlled entity using proportionate consolidation. This acquisition of additional 50% equity interest has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK$16,062,000.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Intangible asset	–	2,236	2,236
Property, plant and equipment	4,438	–	4,438
Inventories	17,574	–	17,574
Trade receivables	12,478	–	12,478
Deposits, prepayments and other receivables	5,634	–	5,634
Bank balances and cash	676	–	676
Trade payables	(1,436)	–	(1,436)
Other payables and accruals	(4,514)	–	(4,514)
Amounts due to related companies	(43,532)	–	(43,532)
Bank borrowings	(9,800)	–	(9,800)
Deferred tax liabilities	–	(559)	(559)
	(18,482)	1,677	(16,805)
Less: Net liabilities previously held by the Group using proportionate consolidation			9,241
Step acquisition revaluation reserve			(1,118)
Goodwill			16,062
Total consideration satisfied by cash			7,380
Net cash outflow arising on acquisition:			
Cash consideration paid			7,380
Bank balances and cash acquired			(338)
			7,042

STF contributed HK$13,226,000 to the Group's profit for the period from the date of acquisition to 31 December 2008.

If the acquisition had been completed on 1 January 2008, total group revenue for the year ended 31 December 2008 would have been HK$1,361,336,000, and profit for the year ended 31 December 2008 would have been HK$1,076,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of the operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

Goodwill arose in the business combination because the consideration paid effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled work force of STF Group.

42. DISPOSAL OF A JOINTLY CONTROLLED ENTITY

On 30 June 2008, the Group entered into a sale agreement to dispose of 50% shareholdings in a jointly controlled entity, Lotto, to a joint venturer of Lotto, which carried out distribution and retailing of apparel and footwear, to a joint venturer of Lotto at a consideration of HK$6,000,000. The transaction was completed in July 2008.

The Group's share of net liabilities of Lotto at the date of disposal were as follows:

	HK$'000
NET LIABILITIES DISPOSED OF	
Property, plant and equipment	4,240
Inventories	11,906
Trade and other receivables	6,568
Bank balances and cash	807
Trade and other payables	(5,727)
Amount due to a shareholder	(12,329)
Amount due to the Group	(12,023)
Amounts due to fellow subsidiaries	(1,134)
	(7,692)
Release of translation reserve	(1,442)
Gain on disposal	15,134
Total consideration, satisfied by cash	6,000
Net cash inflow arising on disposal:	
Cash consideration	6,000
Bank balances and cash disposed of	(807)
	5,193

The jointly controlled entity disposed of during the year ended 31 December 2008 contributed to the Group's revenue and losses of approximately HK$7,491,000 and HK$2,973,000, respectively.

No tax charge or credit arose on gain on the disposal.

43. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2006, property, plant and equipment with carrying values of approximately HK$888,000 were disposed of to a jointly controlled entity at the same amount and were settled through balance due with a jointly controlled entity.

During the year ended 31 December 2006, 2007 and 2008, the Group entered into finance lease arrangements in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the leases of HK$59,000, HK$2,334,000 and nil, respectively.

As at 31 December, 2008, HK$4,500,000 consideration on acquisition of additional interest in a subsidiary has not been settled.

As disclosed in note 28, Well Metro issued certain shares to a minority shareholder at an consideration of approximately HK$6,689,000 as at 31 December 2007, which was settled during the year ended 31 December 2008.

As disclosed in note 32, the consideration payable for the acquisition of PT of approximately HK$28,450,000 was unsettled as at 31 December 2007 and was recorded as other payable in the consolidated balance sheet. The amount was fully settled by the buyer directly during the year ended 31 December 2008.

44. PLEDGE OF ASSETS

At the balance sheet date, the Group has pledged the following assets to secure the general banking facilities and bank borrowings granted to the Group.

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Available-for-sale investments	7,384	6,044	2,791
Bank deposits	57,462	48,099	41,719
Financial assets at FVTPL	–	–	5,968
Prepaid lease payments	30,113	31,471	67,541
Investment property	–	71,505	29,885
Property, plant and equipment	131,162	145,636	188,231
	226,121	302,755	336,135

45. OPERATING LEASE COMMITMENT

The Group as lessee

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
The Group made rental payment for properties under operating lease as follows:			
Minimum lease payments	12,192	19,372	31,056
Contingent rental payments	–	1,380	9,719
	12,192	20,752	40,775

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating lease in respect of rental premises which fall due as follows:

	As at 31 December		
	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*
Within one year	5,127	12,822	30,842
In the second to fifth years	4,135	13,405	22,195
	9,262	26,227	53,037

Operating lease payments represent rentals payable by the Group for certain of its rented premises. Leases are negotiated for terms ranged from one to three years. In addition, the Group paid rental expenses in respect of certain retail shop which are dependent on the level of revenue achieved by such retail shop.

The Group as lessor

Property rental income earned during the years ended 31 December 2006, 2007 and 2008 was nil, nil and HK$572,000, respectively. All of the Group's investment properties are held for rental purposes. As at 31 December 2008, they are expected to generate rental yields of 2.1% on an ongoing basis and all of the properties held have committed tenants for the next 2 years.

At the balance sheet dates, the Group had contracted with tenants for the following future minimum lease payments:

	As at 31 December		
	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*
Within one year	–	–	878
In the second to fifth years inclusive	–	–	146
	–	–	1,024

46. COMMITMENTS

	As at 31 December		
	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the Financial Information	643	59,565	8,896

Commitment of Well Metro in respect of opening retail shops in the PRC

During the year ended 31 December 2007, the Group entered into a franchise agreement with an independent third party for the grant of franchise and distribution right in relation to footwear and apparel, under the brand name of Moschino, in PRC for a period of ten years up to May 2017. Pursuant to the franchise agreement, the Group has committed to open 30 retail shops in the PRC within five years. At 31 December 2008, the Group has opened 18 retail shops and has committed to open 12 retail shops within four years.

During the year ended 31 December 2008, the Group entered into a franchise agreement with an independent third party for the grant of license and manufacture and distribution of the footwear and apparel, under the brand name of Stonefly, for a period of ten years from 1 January 2008 to December 2018. Pursuant to the franchise agreement, the Group has committed to open 30 retail shops and 320 wholesale shops in the PRC within four years. At 31 December 2008, the Group has opened 24 retail shops and 15 wholesale shops and has committed to open 6 retail shops and 305 wholesale shops within three years.

47. CONTINGENT LIABILITY

As at 31 December 2007, the Group had given guarantee of approximately HK$70,200,000 to banks in respect of banking facilities granted to a related company, Sergio Tacchini International S.P.A., in which a director of the Company has beneficial interests. The related company utilised approximately HK$70,200,000 as at 31 December 2007. Such guarantee has been released during the year ended 31 December 2008.

48. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group monthly contributes at the lower of HK$1,000 or 5% of the relevant payroll costs to the MPF Scheme.

The employees of the subsidiaries in the PRC are members of state-managed retirement benefits schemes operated by the PRC government. The relevant subsidiaries are required to make contributions to the state-managed retirement benefits schemes in the PRC based on certain percentage of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

The Group also operates various defined contribution retirement benefits schemes for those employees other than in Hong Kong and the PRC. Contributions are made based on the percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of these schemes. The assets of these schemes are held separately from those of the Group in various independently administered funds. The Group's employer contributions vest fully with the employees when contributed into these schemes.

During the years ended 31 December 2006, 2007 and 2008, the pension scheme contributions made by the Group were approximately HK$3,297,000, HK$4,805,000 and HK$7,504,000, respectively.

49. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution of the shareholders of the Company and will expire on 14 June 2016. The purpose of the Scheme is to recognise the significant contributions of the eligible persons to the growth of the Group by rewarding them with opportunities to obtain the ownership interest in the Company and to further motivate and give incentives to those persons to continue to contribute to the Group's long term success and prosperity. Under the Scheme, the directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for share in the Company. The Scheme became effective on 13 July 2006 (being the date of listing of the shares of the Company on the Stock Exchange).

At 31 December 2006, 2007 and 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 5,300,000, 7,150,000 and 14,850,000 respectively, representing 2.1%, 2.5% and 5.2% respectively of the shares of the Company in issue at that date. The maximum number of share which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital from time to time. In addition, the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue as at 13 July 2006, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days after the date of grant, upon payment of HK$1.0 per option. Options may be exercised at any time during the period as determined by the directors of the Company but may not be exercised after the expiry of the Scheme. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of specific categories of options are as follows:

Date of grant	Number of of options	Vesting period	Exercise period	Exercise Price
13.7.2006	3,800,000	Nil	13.7.2006 to 12.7.2009	HK$1.88
14.9.2006	860,000	Nil	14.9.2006 to 13.9.2009	HK$2.60
	1,290,000	14.9.2006 to 13.9.2007	14.9.2007 to 13.9.2009	HK$2.60
	2,150,000	14.9.2006 to 13.9.2008	14.9.2008 to 13.9.2009	HK$2.60
7.5.2007	6,000,000	Nil	7.5.2007 to 7.5.2010	HK$2.90
9.10.2007	840,000	Nil	9.10.2007 to 8.10.2010	HK$4.90
	435,000	9.10.2007 to 8.10.2008	9.10.2008 to 8.10.2010	HK$4.90
	725,000	9.10.2007 to 8.10.2009	9.10.2009 to 8.10.2010	HK$4.90
18.8.2008	360,000	Nil	18.8.2008 to 17.8.2018	HK$1.57
	540,000	18.8.2008 to 17.8.2009	18.8.2009 to 17.8.2018	HK$1.57
	900,000	18.8.2008 to 17.8.2010	18.8.2010 to 17.8.2018	HK$1.57
11.11.2008	1,830,000	Nil	11.11.2008 to 10.11.2018	HK$0.36
	1,830,000	11.11.2008 to 10.11.2009	11.11.2009 to 10.11.2018	HK$0.36
	2,440,000	11.11.2008 to 10.11.2010	11.11.2010 to 10.11.2018	HK$0.36

The following table discloses movements of the Company's share options held by employees and directors during the Relevant Periods:

Share options grant date	Granted in 2006	Exercised in 2006	Outstanding at 31.12.2006	Granted in 2007	Exercised in 2007	Outstanding at 31.12.2007	Granted in 2008	Exercised in 2008	Outstanding at 31.12.2008
13.7.2006	3,800,000	(2,800,000)	1,000,000	–	(1,000,000)	–	–	–	–
14.9.2006	4,300,000	–	4,300,000	–	(350,000)	3,950,000	–	–	3,950,000
7.5.2007	–	–	–	6,000,000	(4,800,000)	1,200,000	–	(200,000)	1,000,000
9.10.2007	–	–	–	2,000,000	–	2,000,000	–	–	2,000,000
18.8.2008	–	–	–	–	–	–	1,800,000	–	1,800,000
11.11.2008	–	–	–	–	–	–	6,100,000	–	6,100,000
	8,100,000	(2,800,000)	5,300,000	8,000,000	(6,150,000)	7,150,000	7,900,000	(200,000)	14,850,000
Exercisable at the end of the year			1,860,000			3,840,000			8,415,000
Weighted average exercise price	HK$2.26	HK$1.88	HK$2.46	HK$3.40	HK$2.72	HK$3.28	HK$0.64	HK$2.90	HK$1.89

In respect of the share options exercised for the years ended 31 December 2006, 2007 and 2008, the weighted average share price at the dates of exercise is HK$2.39, HK$4.44 and HK$4.45, respectively and the date immediately before the date of exercise is HK$2.39, HK$4.53 and HK$4.55, respectively.

During the year ended 31 December 2006, options were granted on 13 July 2006 and 14 September 2006 where the share prices of the Company's share at the date immediately before the date of grant were HK$1.88 and HK$2.60, respectively. The estimated fair values of the options granted on those dates are approximately HK$1,273,000 and HK$2,289,000 respectively.

During the year ended 31 December 2007, options were granted on 7 May 2007 and 9 October 2007 where the share prices of the Company's share at the date immediately before the date of grant were HK$2.90 and HK$4.95, respectively. The estimated fair values of the options granted on those dates are approximately HK$2,664,000 and HK$2,852,000 respectively.

During the year ended 31 December 2008, options were granted on 18 August 2008 and 11 November 2008 where the share prices of the Company's share at the date immediately before the date of grant were HK$1.39 and HK$0.34, respectively. The estimated fair values of the options granted on those dates are approximately HK$902,000 and HK$827,000 respectively.

These fair values were calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

	Share options grant date					
	13.7.2006	**14.9.2006**	**7.5.2007**	**9.10.2007**	**18.8.2008**	**11.11.2008**
Share price at date of grant	HK$1.88	HK$2.5	HK$2.88	HK$4.77	HK$1.39	HK$0.34
Exercise price	HK$1.88	HK$2.6	HK$2.90	HK$4.90	HK$1.57	HK$0.36
Expected volatility *(Note)*	45%	45%	55.7%	61.5%	61.4%	68.3%
Expected life	Nil	1.5 to 2.5 years	3 years	1 year to 2.5 years	5 to 6 years	5 to 6 years
Risk-free rate	4.4%	3.8%	3.8% to 4.0%	3.7% to 3.8%	2.9% to 3%	1.7% to 1.8%
Expected dividend yield	3.0%	3.0%	4.0%	3.0%	5%	5%

Note: For the share options granted during the year ended 31 December 2006, expected volatility was determined by using the volatility of share price for other companies, with shares listed on the Stock Exchange, in the same industry.

For the share options granted during the years ended 31 December 2007 and 2008, expected volatility was determined by using the historical volatility of the Company's share price over the previous years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of approximately HK$1,889,000, HK$4,141,000 and HK$2,789,000, respectively, for the year ended 31 December 2006, 2007 and 2008, respectively in relation to share options granted by the Company.

50. RELATED PARTY TRANSACTIONS

During the Relevant Periods, the Group entered into the following significant transactions with related parties:

Name of related party	Nature of transactions	2006 HK$'000	2007 HK$'000	2008 HK$'000
Morgan S. A. *(note 7)*	Sales of finished goods	38,222	–	–
Long Wise (Holdings) Limited *(note 1)*	Service fee paid	281	268	247
STF *(note 2)*	Interest income	179	371	124
	Management fee income	180	690	230
STF (Nanjing) Company Limited *(note 2)*	Rental income	–	125	–
Sergio Tacchini International S.P.A. *(note 3)*	Sales of apparel	–	201,710	202,037
	Sourcing income	–	12,167	12,486
	Management fee income	–	–	990
Shanghai Sisley Trading Co. Limited *(note 4)*	Purchase of apparel	–	6,936	10,542
M.T.T. Yangzhou Garment Co. Limited *(note 4)*	Sales of property, plant and equipment	–	83	–
	Sale of apparel and accessories	–	–	756
	Purchases of apparel and accessories	–	–	729
Mountain Experience Betiligungs *(note 5)*	Sales commission paid	–	–	2,299
Lotto (Nanjing) Garment Co. Ltd. *(note 6)*	Sales of apparel and accessories	4,105	2,083	–
	Rental income	–	427	840
	Transfer of property, plants and equipment	888	–	–
Lotto *(note 6)*	Management fee income	–	690	345
	Sales of apparel and accessories	155	–	–
M.T.T. Limited *(note 4)*	Management fee income	–	896	840

During the year ended 31 December 2007,恆寶利南京科技有限公司, in which a director of the Company has beneficial interests, acted as a guarantor for bank borrowings of a subsidiary of the Company, Hembly Yangzhou Garment Manufacturing Co., Ltd, approximately RMB10,000,000. Such guarantee was released during the year ended 31 December 2008.

Notes:

1. This company is a minority shareholder of the Company's subsidiary.

2. The Group acquired additional 50% of the issued share capital of STF during the year ended 31 December 2008. Details of the acquisition are disclosed in note 41. STF (Nanjing) Company Limited is a wholly owned subsidiaries of STF and STF became a wholly owned subsidiary of the Group, during the year ended 31 December 2008.

3. A director of the Company has beneficial interest in this company. Details of the nature and terms of the transactions for the years ended 31 December 2007 and 2008 with Sergio Tacchini International S.P.A. please refer to the circular issued by the Company on 26 July 2007 and 14 November 2008 respectively.

4. These companies are jointly controlled entities of the Company.

5. This company is a joint venturer of a jointly controlled entity of the Company.

6. These are jointly controlled entities of the Company. The Company disposed of its 50% shareholdings to a joint venturer of Lotto. Details of the disposal are disclosed in note 42.

7. This company ceased to be a minority shareholder of the Company's subsidiary as on 27 June 2008.

As at 31 December 2006 and 2007, Stonefly S.P.A., a joint venturers of a jointly controlled entity, STF, acted as a joint guarantor with a subsidiary of the Company, Hembly Garment Manufacturing Limited, for bank borrowings of approximately HK$18,000,000 and HK$22,000,000, respectively, granted to STF. As at 31 December 2006 and 2007, the amount of such utilised by STF was approximately HK$10,424,000 and HK$9,800,000, respectively. During the year ended 31 December 2008, STF became a wholly-owned subsidiary of the Group.

As at 31 December 2007, the Group had given guarantee of approximately HK$70,200,000 to banks in respect of banking facilities granted to a related company, Sergio Tacchini International S.P.A., in which a director of the Company has beneficial interests. The related company utilised approximately HK$70,200,000 as at 31 December 2007. Such guarantee has been released during the year ended 31 December 2008.

Pursuant to certain master licence agreements, Morgan S.A. a minority shareholder of the Company's subsidiary as at 31 December 2006 and 2007 granted to the Group an exclusive license, with the right to grant sub-license, to manufacture and sale certain Morgan S.A. licensed products, subject to payment of royalty fee, which is calculated based on the number of licensed products manufactured, for a period of five years starting from year 2004 with an option to renew further five years. No royalty fee has been paid by the Group in respect of these master license agreements during the years ended 31 December 2006, 2007 and 2008.

51. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of key management and directors of the Company during the Relevant Periods was as follows:

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Short-term benefits	8,081	11,341	13,973
Other long-term benefits	271	158	48
Share-based payments	615	873	1,688
	8,967	12,372	15,709

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

B. SUBSEQUENT EVENTS

On 20 January 2009, the Board of Directors announced that the Company proposes to raise not less than HK$42,450,000 and not more than HK$43,360,000 before the estimated expenses by issuing not less than 141,515,000 offer shares and not more than 144,547,500 offer shares on the basis of one offer share for every two shares held on 10 February 2009. On 25 February 2009, an aggregate of 10 valid acceptances had been received for an aggregate of 52,030,885 offer shares, representing approximately 36.77% of the total number of 141,515,000 offer shares offered under the open offer and approximately 12.26% of the enlarged issued share capital of the Company of 424,545,000 shares immediately after completion of the open offer. The open offer was under-subscribed by 89,484,115 offer share ("untaken offer shares"). Pursuant to the underwriting agreement, the underwriter has fully underwritten the untaken offer shares. The untaken offer shares represent approximately 63.23% of the total offer shares and approximately 21.08% of the enlarged issued share capital of the Company of 424,545,000 shares immediately after completion of the open offer on 3 March 2009.

On 3 December 2008, the Company entered into a sale agreement with Primewill Investments Limited (the "Agreement"). Pursuant to the Agreement, the Company has conditionally agreed to sell 100% equity interest in Well Metro, which principally engaged in the business of distribution and retailing of apparel and footwear in the PRC, for cash consideration of HK$100,000,000 subject to the terms and conditions of the Agreement. Upon the completion of the above transactions, the Company will not have any shareholding in Well Metro and Well Metro will cease to be a subsidiary of the Company. As at 31 December 2008, the Group received HK$80,000,000 from Primewill Investments Limited as deposit for this transaction. Pursuant to the Listing Rules, the disposal is subject to the approved by the independent shareholders at a general meeting of the Company and the extraordinary general meeting ("EGM") will be convened for such purpose. The voting to be taken in the EGM to seek approval of the disposal will be taken by poll. Up to the date of this report, EGM has not been held.

(i) Included below are the results of Well Metro and its subsidiaries incorporated into the Group's consolidated income statements for the Relevant Periods:

	Year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	60,490	123,532	263,612
Cost of sales	(37,583)	(64,067)	(142,151)
Gross profit	22,907	59,465	121,461
Fair value change of an investment property	–	13,249	(3,371)
Other income	1,723	7,858	12,822
Administrative expenses	(10,788)	(25,583)	(39,383)
Distribution and selling costs	(13,968)	(37,851)	(85,669)
Impairment loss on goodwill	–	–	(16,062)
Impairment loss on property, plant and equipment	–	–	(23,425)
Impairment loss on intangible assets	–	–	(2,138)
Impairment loss on prepaid lease payments	–	–	(2,405)
Gain on change in fair value of conversion option derivative liability	–	–	19,873
Gain on disposal of a subsidiary	–	–	1,443
Gain on disposal of a jointly controlled entity	–	–	15,134
Finance costs	(780)	(828)	(12,208)
(Loss) profit before tax	(906)	16,310	(13,928)
Income tax credit (expense)	6	(5,894)	(3,231)
(Loss) profit for the year	(900)	10,416	(17,159)

(ii) Included below are the assets and liabilities of Well Metro and its subsidiaries incorporated into the Group's consolidated balance sheets as at 31 December 2006, 2007 and 2008:

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	6,386	31,034	133,391
Investment property	–	71,505	29,885
Intangible asset	–	10,186	12,177
Goodwill	–	2,514	2,514
Prepaid lease payments	12,653	15,251	13,696
Loan to a jointly controlled entity	5,168	5,168	–
Deferred tax assets	–	287	626
	24,207	135,945	192,289
Current assets			
Inventories	10,254	24,902	62,560
Trade receivables	12,508	40,059	29,262
Deposits, prepayments and other receivables	8,462	36,526	14,597
Prepaid lease payments	258	318	343
Loans to jointly controlled entities	5,596	8,273	–
Amount due from a minority shareholder	–	6,689	–
Amounts due from fellow subsidiaries	10,392	108,463	127,853
Amount due from a related company	–	–	54,172
Amounts due from jointly controlled entities	753	14,004	–
Amount due from a former jointly controlled entity	–	–	302
Pledged bank deposits	–	2,256	–
Bank deposits with original maturity of more than three months	–	24,013	–
Bank balances and cash	11,284	22,889	3,853
	59,507	288,392	292,942
Assets classified as held for sale	–	41,530	–
	59,507	329,922	292,942

	As at 31 December		
	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Trade payables	2,784	20,262	31,458
Other payables and accruals	9,357	42,908	34,710
Amounts due to fellow subsidiaries	27,356	52,910	71,564
Amount due to immediate holding company	–	93,887	145,736
Amount due to ultimate holding company	23,855	44	44
Amounts due to joint venturers of jointly controlled entities	4,607	11,443	–
Loans from joint venturers of jointly controlled entities	6,273	13,441	–
Amounts due to related companies	2,117	2,034	–
Amounts due to jointly controlled entities	831	–	–
Amount due to a former jointly controlled entity	–	–	12,499
Obligations under a finance lease – due within one year	12	12	12
Bank borrowings – due within one year	5,212	4,954	1,886
Bank overdrafts	–	607	–
Taxation payable	–	2,628	2,386
	82,404	245,130	300,295
Liabilities associated with assets classified as held for sale	–	13,080	–
	82,404	258,210	300,295
Net current (liabilities) assets	(22,897)	71,712	(7,353)
Total assets less current liabilities	1,310	207,657	184,936
Non-current liabilities			
Loans from joint venturers of jointly controlled entities	5,168	–	–
Obligations under a finance lease – due after one year	41	29	18
Deferred tax liabilities	–	3,411	3,477
Convertible redeemable preference shares	–	68,071	79,292
Conversion option derivative liability	–	22,022	2,149
	5,209	93,533	84,936
	(3,899)	114,124	100,000

(iii) Included below are cash flows of Well Metro and its subsidiaries incorporated into the Group's consolidated cash flow statements for the Relevant Periods:

	Year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES			
(Loss) profit before tax	(906)	16,310	(13,928)
Adjustments for:			
Depreciation of property, plant and equipment	2,167	3,917	13,609
Amortisation of prepaid lease payments	–	274	335
Share-based payment expense	402	44	–
Finance costs	780	828	987
Interest expense on convertible redeemable preference shares	–	–	11,221
Interest income	(185)	(398)	(733)
Impairment loss recognised (reversal of) in respect of trade receivables	–	1,128	540
Impairment for property, plant and equipment	–	–	23,425
Impairment for goodwill	–	–	16,062
Impairment for prepaid lease payments	–	–	2,405
Impairment for intangible assets	–	–	2,138
Reversal of impairment loss on loan to a jointly controlled entity	–	(677)	–
Allowance for inventories	–	1,675	–
Gain on disposal of a subsidiary	–	–	(1,443)
Gain on disposal of a jointly controlled entity	–	–	(15,134)
Gain on change in fair value of conversion option derivative liability	–	–	(19,873)
Loss on disposal of property, plant and equipment	116	1,060	1,239
Amortisation of intangible asset	–	631	2,409
Fair value change of an investment property	–	(13,249)	3,371

	Year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Operating cash flows before movements in working capital	2,374	11,543	26,630
Increase in inventories	(778)	(16,005)	(48,064)
(Increase) decrease in trade receivables	(10,789)	(28,248)	11,411
(Increase) decrease in deposits, prepayments and other receivables	(6,482)	(27,658)	20,697
Decrease (increase) in amounts due from jointly controlled entities	135	(13,251)	10,327
Decrease (increase) in amounts due from fellow subsidiaries	4,116	(98,071)	(26,024)
Decrease in amount due from immediate holding company	12	–	–
Decrease (increase) in amount due from a related company	547	–	(54,172)
(Decrease) increase in trade payables	(2,497)	17,290	13,464
Increase in other payables and accruals	5,261	2,328	24,783
Decrease in amounts due to related companies	–	(83)	(2,034)
Increase in amounts due to fellow subsidiaries	18,413	24,316	18,031
(Decrease) increase in amounts due to jointly controlled entities	(1,059)	(831)	7,989
Increase in amount due to a former jointly controlled entity	–	–	12,499
Increase in amounts due to joint venturers of jointly controlled entities	3,150	6,836	1,407
Cash from (used in) operations	12,403	(121,834)	16,944
Profits Tax paid	–	(307)	–
Overseas tax refund (paid)	6	–	(4,695)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	12,409	(122,141)	12,249

	Year ended 31 December		
	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*
INVESTING ACTIVITIES			
Increase in prepaid lease payments	(12,912)	(2,012)	(18)
(Loans to) repayment from jointly controlled entities	(9,191)	(2,000)	12,046
Purchase of property, plant and equipment	(7,637)	(28,479)	(87,111)
Interest received	185	398	733
Proceeds on disposal of property, plant and equipment	2	–	2,952
(Increase) decrease in bank deposits with original maturity of more than three months	–	(24,013)	22,165
Purchase of investment property	–	(56,181)	–
Purchase of intangible asset	–	(10,817)	(4,789)
(Increase) decrease in pledged bank deposits	–	(2,256)	2,341
Acquisition of additional interest in a subsidiary	–	–	(7,042)
Acquisition of a subsidiary	–	419	–
Disposal of jointly controlled entities	–	–	2,241
NET CASH USED IN INVESTING ACTIVITIES	(29,553)	(124,941)	(56,482)
FINANCING ACTIVITIES			
Increase (decrease) in amount due to ultimate holding company	23,855	(23,855)	–
Loans from joint venturers of jointly controlled entities	9,191	2,000	(14,836)
Bank borrowings raised	6,429	220	83,795
Repayment of bank borrowings	(5,119)	(478)	(91,762)
Interest paid	(780)	(828)	(987)
Repayment of obligation under a finance leases	(5)	(12)	(12)
Issuance of convertible redeemable preference shares	–	90,859	–
Proceeds from issue of ordinary shares	–	93,310	–
Increase in amount due to immediate holding company	–	93,887	37,475
Additional capital contribution from minority interest of a subsidiary	–	–	6,689

	Year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
NET CASH FROM FINANCING ACTIVITIES	33,571	255,103	20,362
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,427	8,021	(23,871)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	838	2,977	5,442
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	(5,981)	11,284	22,282
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	11,284	22,282	3,853
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash	11,284	22,889	3,853
Bank overdrafts	–	(607)	–
	11,284	22,282	3,853

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 2008.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

2. MANAGEMENT AND DISCUSSION AND ANALYSIS ON THE REMAINING GROUP

Business and Financial Review

Overview

Against the backdrop of a global financial credit crunch amidst looming universal recession, Hembly, like all other businesses, is facing an increasingly challenging operating environment.

In full awareness of the challenges ahead, Hembly remained committed to develop our supply chain core business and had, during the year under review, equipped ourselves with more value added supply chain services, which successfully increased our customers' network. These measures allowed Hembly a "softer" landing, amidst the current market downturn. On the upside, the harsh global market demands for luxury brands to stringently control their costs without fail. This demand, which leaves no stones unturned, gave all luxury brands the impetus to actively seek out Asian suppliers, who can meet their demand for the resources, network and expertise in apparel supply chain services. Hembly's established track record in China's sourcing/supply chain, naturally positioned it to capture these correspondingly increased orders. As a result, the Group enjoyed a robust increase in orders from existing customers as well as new customers during the year under review.

During the year under review, the Remaining Group's revenue reached approximately HK$1,094.9 million, representing an increase of approximately 19.9%, as compared to last year, which accounted for approximately 80.7% of the Group's revenue in the financial year 2008. The aforementioned supply chain revenue increase for the year is mainly attributable to an upsurge of supply chain services provided by the Remaining Group to our branded customers' domestic PRC distribution network and to PRC import and export corporations.

Amidst increased raw material/labor costs, utility costs, textile trading regulatory changes (decreased export rebate rate) and pricing pressures exerted by RMB appreciation, the Remaining Group's gross profit dropped from 30.7% as of last year to 22.3% for the year under review.

Meanwhile, Hembly's well orchestrated dual operation model, which combines outsource production management and in-house manufacturing, has indeed allowed the Remaining Group to work through the global credit crunch. This dual operation model has clearly allowed the Remaining Group to, at a much lower capital production expenditure cost, offer its customers a much wider range of products to choose from, according to their needs. This inbuilt flexibility had facilitated Hembly to outperform its competitors in a swift and spontaneous way, which spontaneity is a key winning crucial amidst an ever-fluctuating market environment.

Where silver linings are concerned, the current global market trends do offer the Remaining Group vast new opportunities. In times of financial turmoil, stringent production cost control and sourcing capabilities become crucial. The Remaining Group's scalability and extensive PRC sourcing networks clearly outstand it as the most reliable partner within the China sourcing world for all European brands, especially when there are less competing partners to choose from given harsh economic times. In response to rising material costs, Hembly has actively increased the sourcing of raw materials from within China, whilst supplementing these materials via advanced technologies, which the Remaining Group has acquired from Europe. These measures had definitely increased the Remaining Group's operation efficiencies.

In light of the current market situation, the China government has further announced an increase in export rebate rates in the second half of 2008, with a view to support the industry. This is a great news for Hembly, as we are optimistic that these new regulations will surely benefit the Group in year 2009.

As our supply chain services remain the main pillar behind the Remaining Group's success, Hembly will continue to focus its resources and manpower to maximize our competitiveness in this area.

To strengthen the Remaining Group's supply chain services, Hembly has, on 14 November 2008, announced its conditional renewal of its sourcing agreement with Sergio Tacchini for another three years ending 31 December 2011. This agreement was approved by its shareholders at its extraordinary general meeting held on 30 December, 2008.

Prospect

Throughout the years, Hembly's supply chain business has remained the number one contributor to the Remaining Group's financial and operation performances. With a vision towards vertical integration, the Company had allocated resources to develop its distribution and retailing businesses in China so as to leverage on China's sharp economic growth during the past 2 years.

Notwithstanding the Remaining Group's vision towards vertical integration, the unexpected global financial melt-down had adversely affected all industries, with luxury businesses being its casualties.

The net proceeds from the condition disposal of Well Metro will enhance the liquidity of the Remaining Group and enable the Remaining Group to, upon due completion of the aforesaid conditional disposal, focus on its principal engagement in the provision of supply chain services for apparel and accessories to international brand apparel makers.

Going forward, the supply chain services provided by the Remaining Group will continue to include product design, laboratory testing, production management (ie. outsourcing and in-house manufacturing), quality assurance, packaging and logistics management for the supply of apparel and accessories. The Remaining Group's major customers will continue to include United Colors of Bennetton, Sisley, Moschino, See by Chloé, R.E.D. Valentino, DKNY Jeans, Diesel, Quiksilver, Lafuma, Lotto, Salewa and Sergio Tacchini.

With full attention and focus on the Remaining Group's core business, the Directors expect the Remaining Group's leading supply chain services will continue to achieve satisfactory results despite severe business environment. Further, the Remaining Group's value added supply chain services, which ride on Europe's outsourcing trend, will continue to enhance the Remaining Group's competitiveness in the market in the coming year.

Finance Costs

Finance costs increased by 15.9% to HK$46.0 million, as compared to last year. This substantial increase is mainly attributable to the Remaining Group's increased bank borrowings.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2008, the Remaining Group had cash and cash balances of HK$325.2 million, primarily denominated in RMB and HK dollars (31 December 2007: HK$424.9 million), and total bank borrowings of HK$576.7 (31 December 2007: HK$678.8 million), of which 64.2% constitute short-term bank borrowings and 35.8% long-term bank borrowings. The Remaining Group's bank borrowings was primarily denominated in RMB, HK dollars and US dollars. As at 31 December 2008, 35.8%, 37.0%, and 27.2% of the Remaining Group's total bank borrowings were denominated in RMB, HK dollars and US dollars, respectively, with 36.8% of the total bank borrowing subject to fixed interest rates and 63.2% 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 Remaining Group's total shareholders' equity, increased from 0.45 as at 31 December 2007 to 0.50 as at 31 December 2008. The current ratio, which is calculated on the basis of current assets over current liabilities, decreased from 1.73 as at 31 December 2007 to 1.54 as at 31 December 2008.

The interest coverage for this year, expressed as a quotient of EBITDA over interest expenses, was 1.84, which is considered a comfortable level.

Foreign Exchange Exposure

The Remaining 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. The Remaining Group's exposure to RMB and US dollars fluctuation is balanced by RMB receipt from its PRC supply chain and distribution and retail sales and US dollar receipt from its supply chain related export sales. To minimize possible foreign currency fluctuation, related loss and maximize possible RMB appreciation profit, the Remaining Group adopts stringent internal hedging policies, which, during the year, had the strategy of holding the Remaining Group's majority monetary assets in RMB. During the year, the Remaining 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 Remaining 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 2008, the Remaining Group's bank deposits of HK$41.7 million, available for sale securities of HK$2.8 million, financial assets at fair value through profit or loss of HK$6.0 million, property, plant and equipment with an aggregate net book value of HK$151.7 million, and land use rights with an aggregate net book value of HK$53.5 million were pledged to secure general banking facilities and bank borrowings granted to the Remaining Group.

Capital Commitment

As at 31 December 2008, the Remaining Group had no material capital commitment.

Contingent Liabilities

As at 31 December 2008, the Remaining Group had no material contingent liabilities.

Employment Information

As at 31 December 2008, the Remaining Group had about 1,734 employees in total, stationed mainly in the PRC and Hong Kong. The Remaining 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 Remaining Group maintains a share option scheme for the purpose of providing incentives and rewards to eligible participants based on their contributions.

3. FINANCIAL AND TRADING PROSPECTS OF THE REMAINING GROUP

Riding on the Remaining Group's increased client's portfolio and organic growth momentum, the Directors expect the Remaining Group's supply chain services to continue to grow and prosper. As the Remaining Group is an experienced leader in the provision of PRC supply chain services, especially for global luxury and affordable luxury brands, the Directors are confident that the Remaining Group's value added supply chain services, which ride on Europe's outsourcing trend, will enhance the Remaining Group's competitiveness in the market.

Against the backdrop of the recent global credit crunch and looming global recession, the Directors consider it an astute move for the Remaining Group to, through the disposal of the Well Metro Group, focus its resources and energy on its principal supply chain services engagement. After Completion, the Remaining Group will continue to identify and add in more luxury and affordable luxury brands into its portfolio, so as to further strengthen its supply chain network. The Directors believe that the net proceeds from the Disposal will allow the Remaining Group to have more financial flexibility and enhanced liquidity, so as to enable the Remaining Group to focus on its principal engagement in the provision of supply chain services for apparel and accessories to international brand apparel makers.

The Remaining Group will be principally engaged in the provision of supply chain services for apparel and accessories to international brand apparel makers. The supply chain services provided by the Remaining Group will continue to include product design, laboratory testing, production management (ie. outsourcing and in-house manufacturing), quality assurance, packaging and logistics management for the supply of apparel and accessories. The Remaining Group's major customers will continue to include United Colors of Bennetton, Sisley, Moschino, See by Chloé, R.E.D. Valentino, DKNY Jeans, Diesel, Quiksilver, Lafuma, Lotto, Salewa and Sergio Tachinni.

4. STATEMENT OF INDEBTEDNESS

At the close of business on 28 February 2009, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK$560.5 million which comprised secured bank borrowings of approximately HK$321.4 million, unsecured bank borrowings of approximately HK$211.2 million, obligations under finance leases of approximately HK$1.9 million and bank overdrafts of HK$26.0 million. The secured bank borrowings were secured by the pledge of the Group's available-for-sale investments of approximately HK$2.8 million, bank deposits of approximately HK$38.5 million, financial assets at fair value through profit or loss of approximately HK$5.8 million, prepaid lease payments of approximately HK$68.9 million, investment property of approximately HK$29.5 million and property, plant and equipment of approximately HK$192.9 million.

As at the close of business on 28 February 2009, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group has issued 1,500 shares of convertible redeemable preference share with a yield to maturity in an amount equal to 5% of the issue price per annum, compounded annually at a consideration of approximately HK$90,859,000 ("Consideration"). One convertible redeemable preference share can be converted to one ordinary share of the Disposal Group at any time after date of issuance, subject to certain adjustments including adjustment on conversion ratio based on actual profit of the Disposal Group, and is redeemable at an amount equal to Consideration plus any accrued yield by the holder after three years from date of issuance.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, the Group did not have any bank borrowings, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures or other loan capital, mortgage, charges, finance leases or hire purchases commitments, guarantees or other material contingent liabilities outstanding at the close of business on 28 February 2009.

5. WORKING CAPITAL

The Directors are of the opinion that taking into account the Group's present available internal resources together with the proceeds from the Disposal, the Group has sufficient working capital for at least 12 months from the date of this circular in the absence of unforeseen circumstances.

6. MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2008, the date to which the latest published audited annual financial statements were made up.

7. RECONCILIATION STATEMENT OF A PROPERTY

Set out below is a statement of reconciliation between the values of the Property which as stated in the valuation report and the Company's audited consolidated balance sheet as at 31 December 2008 in Appendix III and I of this circular respectively. The statement below was prepared in accordance with Rule 5.07 of the Listing Rules.

	RMB$'000
Net book value of the Property as at 31 December 2008 *(Note 1)*	63,145
Adjustment:	
Adjustment of value property per property valuation report as disclosed in Appendix III of this circular *(Note 2)*	(3,325)
As adjusted	59,820

Notes:

1. The net book value of the Property as at 31 December 2008 of approximately RMB63,145,000 comprises of (i) property, plant and equipment of approximately RMB37,145,000 and (ii) investment property of approximately RMB26,000,000 as per notes 17 and 18 respectively to the Company's financial statements for the year ended 31 December 2008 reproduced in Appendix I to this circular as an exchange rate of HK$1 to RMB0.87.

2. Levels 1, 3 and 5 of the Property was classified as self-occupied and included as leasehold land and buildings in the Company's consolidated audited balance sheet as at 31 December 2008 which was not subjected to annual valuation. In accordance with the valuation report in Appendix III to this circular, the value of the Property was RMB59,820,000 which showed a deficit of RMB3,325,000 in light of the deterioration of the PRC property market in the past few months.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following pro forma consolidated balance sheet, consolidated income statement and consolidated cash flow statement of the Group have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Disposal as if it had taken place on 31 December 2008 for the pro forma consolidated balance sheet and as at 1 January 2008 for the pro forma consolidated income statement and consolidated cash flow statement for the year ended 31 December 2008. This pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Disposal been completed as at 31 December 2008 or at any future date or the financial results and cash flows of the Group for the year ended 31 December 2008 had the Disposal been completed as at 1 January 2008 or for any future period.

I. Unaudited Pro Forma Consolidated Balance Sheet

	Unadjusted Audited Consolidated Balance Sheet of the Group as at 31 December 2008			Pro Forma Adjustments			Adjusted Consolidated Balance Sheet of Pro Forma Remaining Group as at 31 December 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note 1)	*(note 2)*	*(note 3)*	*(note 4)*	*(note 8)*	
Non-current assets							
Property, plant and equipment	323,432	(133,391)	–	–	–	–	190,041
Investment property	29,885	(29,885)	–	–	–	–	–
Intangible assets	12,177	(12,177)	–	–	–	–	–
Goodwill	–	(2,514)	2,514	–	–	–	–
Prepaid lease payments	66,044	(13,696)	–	–	–	–	52,348
Available-for-sale investments	575	–	–	–	–	–	575
Financial assets at fair value through profit and loss	5,968	–	–	–	–	–	5,968
Deferred tax assets	626	(626)	–	–	–	–	–
	438,707						248,932
Current assets							
Inventories	291,844	(62,560)	–	–	–	–	229,284
Trade receivables	402,210	(29,262)	–	–	–	–	372,948
Deposits, prepayments and other receivables	59,999	(14,597)	–	229,843	–	–	275,245
Prepaid lease payments	1,497	(343)	–	–	–	–	1,154
Amounts due from fellow subsidiaries	–	(127,853)	–	127,853	–	–	–
Amount due from a related company	99,171	(54,172)	–	–	–	–	44,999
Amounts due from jointly controlled entities	12,417	–	–	–	–	–	12,417
Amount due from a former jointly controlled entity	918	(302)	–	–	–	–	616
Available-for-sale investments	3,021	–	–	–	–	–	3,021
Pledged bank deposits	41,719	–	–	–	–	–	41,719
Bank deposits with orginal maturity of more than three months	218,391	–	–	–	–	–	218,391
Bank balances and cash	48,969	(3,853)	–	–	20,000	–	65,116

	Unadjusted Audited Consolidated Balance Sheet of the Group as at 31 December 2008			Pro Forma Adjustments			Adjusted Consolidated Balance Sheet of Pro Forma Remaining Group as at 31 December 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note 1)	*(note 2)*	*(note 3)*	*(note 4)*	*(note 8)*	
	1,180,156						1,264,910
Assets classified as held for sale	25,380	–	–	–	–	1,443	26,823
	1,205,536						1,291,733
Current liabilities							
Trade payables	148,592	(31,458)	–	–	–	–	117,134
Other payables and accruals	77,609	(34,710)	–	127,853	–	–	170,752
Deposit received for disposal of a subsidiary	80,000	–	–	–	(80,000)	–	–
Amounts due to fellow subsidiaries	–	(71,564)	–	71,564	–	–	–
Amount due to immediately holding company	–	(145,736)	–	145,736	–	–	–
Amount due to ultimate holding company	–	(44)	–	44	–	–	–
Amounts due to joint venturers of jointly controlled entities	9,155	–	–	–	–	–	9,155
Amounts due to jointly controlled entities	20,028	–	–	–	–	–	20,028
Amount due to a former jointly controlled entity	–	(12,499)	–	12,499	–	–	–
Taxation payable	32,894	(2,386)	–	–	–	–	30,508
Obligations under finance leases – due within one year	798	(12)	–	–	–	–	786
Bank borrowings – due within one year	345,932	(1,886)	–	–	–	–	344,046
Bank overdrafts	26,073	–	–	–	–	–	26,073
	741,081						718,482
Liabilities associated with assets classified as held for sale	25,113	–	–	–	–	–	25,113
	766,194						743,595
Net current assets	439,342						548,138
Total assets less current liabilities	878,049						797,070
Non-current liabilities							
Obligations under finance leases – due after one year	1,219	(18)	–	–	–	–	1,201
Bank borrowings – due after one year	206,627	–	–	–	–	–	206,627
Convertible redeemable preference shares	79,292	(79,292)	–	–	–	–	–
Convertible option derivative liability	2,149	(2,149)	–	–	–	–	–
Deferred tax liabilities	6,492	(3,477)	–	–	–	–	3,015
	295,779						210,843
	582,270						586,227

	Unadjusted Audited Consolidated Balance Sheet of the Group as at 31 December 2008			Pro Forma Adjustments			Adjusted Consolidated Balance Sheet of Pro Forma Remaining Group as at 31 December 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note 1)	*(note 2)*	*(note 3)*	*(note 4)*	*(note 8)*	
Capital and reserves							
Share capital	28,303	–	–	–	–	–	28,303
Reserves	562,843	–	2,514	–	–	1,443	566,800
Equity attributable to equity holders of the Company	591,146						595,103
Minority interests	(8,876)	–	–	–	–	–	(8,876)
	582,270						586,227

II. Unaudited Pro Forma Consolidated Income Statement

	Unadjusted Audited Consolidated Income Statement of the Group for the year ended 31 December 2008		Pro Forma Adjustments			Adjusted Consolidated Income Statement of Pro Forma Remaining Group for the year ended 31 December 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note 5)	*(note 6)*	*(note 7)*	*(note 8)*	
Revenue	1,356,445	(263,612)	–	22,797	–	1,115,630
Cost of sales	(991,305)	142,151	–	(22,797)	–	(871,951)
Gross profit	365,140	(121,461)	–	–	–	243,679
Fair value change of an investment property	(3,371)	3,371	–	–	–	–
Discount on acquisition of additional interest in a subsidiary	4,922	–	–	–	(4,922)	–
Other income	20,545	(12,822)	–	1,911	–	9,634
Administrative expenses	(150,042)	39,383	–	(1,911)	–	(112,570)
Distribution and selling costs	(133,389)	85,669	–	–	–	(47,720)
Impairment loss on goodwill	(36,862)	16,062	20,800	–	–	–
Impairment loss on intangible assets	(2,138)	2,138	–	–	–	–
Impairment loss on property, plant and equipment	(23,425)	23,425	–	–	–	–
Impairment loss on prepaid lease payments	(2,405)	2,405	–	–	–	–
Loss on disposal of a subsidiary	–	(1,443)	(16,481)	–	1,443	(16,481)
Gain on change in fair value of conversion option derivative liability	19,873	(19,873)	–	–	–	–
Gain on disposal of a jointly controlled entity	15,134	(15,134)	–	–	–	–
Finance costs	(58,207)	12,208	–	–	–	(45,999)

	Unadjusted Audited Consolidated Income Statement of the Group for the year ended 31 December 2008		Pro Forma Adjustments			Adjusted Consolidated Income Statement of Pro Forma Remaining Group for the year ended 31 December 2008
	HK$'000	*HK$'000* *(note 5)*	*HK$'000* *(note 6)*	*HK$'000* *(note 7)*	*HK$'000* *(note 8)*	*HK$'000*
Profit before tax	15,775	13,928	4,319	–	(3,479)	30,543
Income tax expense	(14,301)	3,231	–	–	–	(11,070)
Profit for the year	1,474					19,473
Attributable to:						
Equity holders of the Company	7,798	17,159	4,319	–	(1,775)	27,501
Minority interests	(6,324)	–	–	–	(1,704)	(8,028)
	1,474					19,473

Notes:

1 The adjustment reflects the de-consolidation of the assets and liabilities of the Well Metro Group Limited and its subsidiaries ("Disposal Group") as at 31 December 2008, assuming that the Disposal had taken place on 31 December 2008.

2 The adjustment reflects the reversal of the goodwill previously capitalised in relation to the acquisition of a subsidiary by Disposal Group from a fellow subsidiary which had been eliminated in the Group's consolidated balance sheet.

3 The adjustment reflects the reclassification of the inter-company balances between the Remaining Group and the Disposal Group.

4 The adjustment reflects (i) the estimated cash proceeds of approximately HK$100 million, as provided in the Sale and Purchase Agreement entered into by the Group and Primewill Investments Limited in relation to the Disposal of Well Metro Group ("Sale and Purchase Agreement"); (ii) the estimated gain of approximately HK$28 million; and (iii) reversal of deposit received for the disposal of Disposal Group of HK$80 million.

The estimated gain is calculated by (i) deducting the net asset value of the Disposal Group of approximately HK$100 million from the estimated proceeds of approximately HK$100 million; and (ii) releasing the exchange and other reserves of approximately HK$28 million upon the Disposal. The final amount of proceeds is subject to the terms and conditions of the Sale and Purchase Agreement, assets and liabilities of the Disposal Group and the gain on the Disposal may be different from the amount described above.

5 The adjustment reflects the de-consolidation of the results of the Disposal Group for the year ended 31 December 2008, assuming the Disposal had taken place on 1 January 2008.

6 The adjustment reflects the estimated loss of approximately HK$16 million resulting from the Disposal, assuming that the disposal had taken place on 1 January 2008. The estimated loss is calculated by (i) deducting the net asset value of the Disposal Group of approximately HK$111 million (less goodwill of HK$3 million in assets classified as held for sale) at 1 January 2008 from the estimated proceeds of approximately HK$100 million; (ii) releasing remaining goodwill on the Disposal Group of approximately HK$20 million; and (iii) releasing the exchange reserve of approximately HK$15 million upon the Disposal. The final amount of proceeds is subject to the terms and conditions of the Sale and Purchase Agreement, assets and liabilities of the Disposal Group and the loss on the Disposal may be different from the amount described above.

7 The adjustment reflects the reversal of elimination in management fee and sales of goods between the Remaining Group and the Disposal Group.

8 The adjustment in consolidated income statement reflects the reversal of (i) discount on acquisition of additional interest in a subsidiary of the Disposal Group; and (ii) the gain on disposal of a subsidiary from the Disposal Group to a fellow subsidiary in 2008. The adjustment in consolidated balance sheet reflects the recognition of goodwill resulting from the acquisition of a subsidiary by a fellow subsidiary from the Disposal Group, which is related to assets classified as held for sale.

III. Unaudited Pro Forma Consolidated Cash Flow Statement

	Unadjusted Audited Consolidated Cash Flow Statement of the Group for the year ended 31 December 2008	Pro forma Adjustments						Adjusted Consolidated Cash Flow Statement of Pro Forma Remaining Group for the year ended 31 December 2008
	HK$'000	*HK$'000 (note 9)*	*HK$'000 (note 10)*	*HK$'000 (note 11)*	*HK$'000 (note 12)*	*HK$'000 (note 13)*	*HK$'000 (note 14)*	*HK$'000*
OPERATING ACTIVITIES								
Profit before tax	15,775	13,928	–	4,319	–	(3,479)	–	30,543
Adjustments for:								
Discount on acquisition of additional interest in a subsidiary	(4,922)	–	–	–	–	4,992	–	–
Depreciation of property, plant and equipment	29,218	(13,609)	–	–	–	–	–	15,609
Amortisation of prepaid lease payments	1,463	(335)	–	–	–	–	–	1,128
Share-based payment expense	2,789	–	–	–	–	–	–	2,789
Interest expense on convertible redeemable preference shares	11,221	(11,221)	–	–	–	–	–	–
Interest expense	46,986	(987)	–	–	–	–	–	45,999
Interest income	(7,916)	733	–	–	–	–	–	(7,183)
Gain on disposal of a subsidiary	–	1,443	–	–	–	(1,443)	–	–
Gain on disposal of a jointly controlled entity	(15,134)	15,134	–	–	–	–	–	–
Impairment loss recognised in respect of trade receivable	1,234	(540)	–	–	–	–	–	694
Allowance for inventories	317	–	–	–	–	–	–	317
Gain on disposal of available-for-sales investments	(168)	–	–	–	–	–	–	(168)
Change in fair value of financial assets at fair value through profit and loss	194	–	–	–	–	–	–	194
Loss on disposal of property, plant and equipment	1,443	(1,239)	–	–	–	–	–	204
Amortisation of intangible assets	2,409	(2,409)	–	–	–	–	–	–
Change of fair value of an investment property	3,371	(3,371)	–	–	–	–	–	–
Impairment loss on goodwill	36,862	(16,062)	–	(20,800)	–	–	–	–
Impairment loss on intangible assets	2,138	(2,138)	–	–	–	–	–	–
Impairment loss on property, plant and equipment	23,425	(23,425)	–	–	–	–	–	–
Impairment loss on prepaid lease payments	2,405	(2,405)	–	–	–	–	–	–
Gain on change in fair value of conversion option derivative liability	(19,873)	19,873	–	–	–	–	–	–
Loss on disposal of a subsidiary	–	–	–	16,481	–	–	–	16,481
Operating cash flows before movements in working capital	133,237						–	106,607
Increase in inventories	(112,850)	48,064	–	–	–	–	–	(64,786)
Increase in trade receivables	(150,108)	(11,411)	–	–	–	–	–	(161,519)
Decrease in deposits, prepayments and other receivables	48,673	(20,697)	–	–	–	–	–	27,976
Increase in amounts due from jointly controlled entities	(6,601)	(10,327)	–	–	–	–	–	(16,928)
(Increase) decrease in amounts due from fellow subsidiaries	–	26,024	–	–	(26,024)	–	–	–
Decrease in amount due from a related company	75,217	54,172	–	–	2,034	–	–	131,423
Increase in trade payables	15,792	(13,464)	–	–	–	–	–	2,328
Increase (decrease) in other payables and accruals	17,329	(24,783)	–	–	7,993	–	–	539
Increase (decrease) in amounts due to related companies	–	2,034	–	–	(2,034)	–	–	–
Increase/(decease) in amounts due to fellow subsidiaries	–	(18,031)	–	–	18,031	–	–	–
Increase in amounts due to joint venturers of jointly controlled entity	12,919	(1,407)	–	–	–	–	–	11,512
Increase in amounts due to jointly controlled entities	22,205	(7,989)	–	–	(12,499)	–	–	1,717
Increase (decrease) in amount due to a former jointly controlled entity	–	(12,499)	–	–	12,499	–	–	–

	Unadjusted Audited Consolidated Cash Flow Statement of the Group for the year ended 31 December 2008			Pro forma Adjustments				Adjusted Consolidated Cash Flow Statement of Pro Forma Remaining Group for the year ended 31 December 2008
	HK$'000	*HK$'000* *(note 9)*	*HK$'000* *(note 10)*	*HK$'000* *(note 11)*	*HK$'000* *(note 12)*	*HK$'000* *(note 13)*	*HK$'000* *(note 14)*	*HK$'000*
Cash from (used in) operations	55,813	(16,944)	–	–	–	–	–	38,869
	–							
Hong Kong profits tax (paid) refund	(9)	–	–	–	–	–	–	(9)
Tax paid for other jurisdictions	(6,361)	4,695	–	–	–	–	–	(1,666)
Net cash from operating activities	49,443						–	37,194
Investing activities								
Purchase of property, plant and equipment	(92,560)	87,111	–	–	–	–	–	(5,449)
Purchase of available-for-sale investments	(805)	–	–	–	–	–	–	(805)
Acquisition of additional interest in a former jointly controlled entity	(7,042)	7,042	–	–	–	–	–	–
Purchase of intangible asset	(4,789)	4,789	–	–	–	–	–	–
Purchase of financial assets at fair value through profit and loss	(6,162)	–	–	–	–	–	–	(6,162)
Increase in prepaid lease payments	(36)	18	–	–	–	–	–	(18)
Deposit received for disposal of a subsidiary	80,000	–	(80,000)	–	–	–	–	–
Decrease in bank deposits with original maturity of more than three months	71,212	(22,165)	–	–	–	–	–	49,047
Interest received	7,916	(733)	–	–	–	–	–	7,183
Proceeds on disposal of property, plant and equipment	3,176	(2,952)	–	–	–	–	–	224
Decrease in pledged bank deposits	6,342	(2,341)	–	–	–	–	–	4,001
Repayment from jointly controlled entities	12,046	(12,046)	–	–	–	–	–	–
Disposal of a jointly controlled entity	5,193	(5,193)	–	–	–	–	–	–
Disposal of a subsidiary	–	2,952	77,718	–	–	–	(2,952)	77,718
Acquisition of a subsidiary	–	–	–	–	–	–	2,952	2,952
Proceeds on disposal of available-for-sale investment	3,208	–	–	–	–	–	–	3,208
Net cash from investing activities	77,699						–	131,899
Financing activities								
Repayment of bank borrowings	(2,364,804)	91,762	–	–	–	–	–	(2,273,042)
Interest paid	(46,986)	987	–	–	–	–	–	(45,999)
Dividend paid	(28,303)	–	–	–	–	–	–	(28,303)
Repayment of loans from joint venturers of jointly controlled entities	(14,836)	14,836	–	–	–	–	–	–
Repayment of obligations under finance leases	(913)	12	–	–	–	–	–	(901)
New bank borrowings raised	2,215,210	(83,795)	–	–	–	–	–	2,131,415
Additional capital contribution from minority interest of a subsidiary	6,689	(6,689)	–	–	–	–	–	–
Proceeds from issue of ordinary shares	580	–	–	–	–	–	–	580
Increase (decrease) in amount due to immediate holding company	–	(37,475)	–	–	–	–	–	(37,475)

	Unadjusted Audited Consolidated Cash Flow Statement of the Group for the year ended 31 December 2008			Pro forma Adjustments				Adjusted Consolidated Cash Flow Statement of Pro Forma Remaining Group for the year ended 31 December 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note 9)	*(note 10)*	*(note 11)*	*(note 12)*	*(note 13)*	*(note 14)*	
Net cash used in financing activities	(233,363)						–	(253,725)
Net decrease in cash and cash equivalents	(106,221)						–	(84,632)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	20,984	(5,442)	–	–	–	–	–	15,542
Cash and cash equivalents at beginning of the year	111,616	(22,282)	22,282	–	–	–	–	111,616
Cash and cash equivalents at end of the year	26,379						–	42,526
Represented by:								
Bank balances and cash	48,969	(3,853)	20,000	–	–	–	–	65,116
Bank overdraft	(26,073)	–	–	–	–	–	–	(26,073)
Cash and cash equivalents included in a disposal group held for sales	3,483	–	–	–	–	–	–	3,483
	26,379						–	42,526

Notes:

9 The adjustment reflects the exclusion of the cash flows of the Disposal Group for the year ended 31 December 2008, assuming that the Disposal had taken place on 1 January 2008.

10 The adjustment reflects the net cash proceeds of approximately HK$100 million received from the Disposal less the cash and cash equivalents of approximately HK$22 million held by the Disposal Group at 1 January 2008.

11 The adjustment reflects the estimated loss of approximately HK$16 million resulting from the Disposal, assuming that the disposal had taken place on 1 January 2008. The estimated loss is calculated by (i) deducting the net asset value of the Disposal Group of approximately HK$111 million (less goodwill of HK$3 million in assets classified as held for sale) at 1 January 2008 from the estimated proceeds of approximately HK$100 million; (ii) releasing remaining goodwill on the Disposal Group of approximately HK$20 million; and (iii) releasing the exchange reserve of approximately HK$15 million upon the Disposal.

12 The adjustment reflects the reclassification of inter-company balances between the Remaining Group and the Disposal Group.

13 The adjustment reflects the reversal of (i) discount on acquisition of additional interest in a subsidiary of the Disposal Group; and (ii) the gain on disposal of a subsidiary from the Disposal Group to a fellow subsidiary in assuming the Disposal had taken place on 1 January 2008.

14 The adjustment reflects the elimination of net cash proceeds attributable to the disposal of a subsidiary from the Disposal Group to a fellow subsidiary, assuming the Disposal had to taken place on 1 January 2008.

2. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

Deloitte.
德勤

TO THE DIRECTORS OF HEMBLY INTERNATIONAL HOLDINGS LIMITED

We report on the unaudited pro forma financial information of Hembly International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the the proposed disposal of 100% equity interest in Well Metro Group Limited and its subsidiaries (the "Proposed Disposal") might have affected the financial information presented, for inclusion in Appendix II to the circular dated 24 April 2009 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page 123 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Group as at 31 December 2008 or any future date; or

- the results and cash flows of the Group for the year ended 31 December 2008 or any future period.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 April 2009

Flat D & E
24th Floor
Alliance Building
Nos. 130 – 136 Connaught Road Central
Hong Kong

GA APPRAISAL LIMITED
天基資產評估有限公司

Date: 24 April 2009

The Board of Directors
Hembly International Holdings Limited
36th Floor
No. 1 Hung To Road
Kwun Tong
Kowloon
Hong Kong

Dear Sirs,

Re: Room No. 101 on Level 1 and the whole of Levels 2 to 5, No. 270 Wu Song Road, Yaojiang Centre, Hongkou District, Shanghai Municipality, The People's Republic of China

In accordance with your instructions to prepare a report and valuation in respect of the market value of captioned property, in which Hembly International Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), in its existing state and subject to existing tenancies, in conjunction with a disposal exercise and issuance of a circular to shareholders of the Company, we confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing the capital value of the property interests as at 31 March 2009 (the "date of valuation").

The valuation is our opinion of market value which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Appraisal and Valuation Standards (6th Edition September 2008) published by the Royal Institution of Chartered Surveyors and the HKIS Valuation Standards on Properties (1st Edition January 2005) published by the Hong Kong Institute of Surveyors.

Our valuation has been made on the assumption that the seller sell the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which could serve to affect the value of the property interests.

According to information provided by the Group, portion of the property has been leased out to a third party whilst the remaining portion is owner-occupied. In the course of our valuation, we have adopted market approach. In valuing the leased portion of the property, we have employed investment method by taking into account of the respective rental incomes of the leased portion derived from the existing tenancies with due allowance for the reversionary income potential of the respective tenancies, which are then capitalized into the value at an appropriate capitalization rate.

Regarding the owner-occupied portion of the property, we have adopted direct comparison approach assuming sale of that portion in its existing state on strata-titled basis with the immediate benefit of vacant possession and making reference to the comparable sales evidence as available in the relevant market.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

We have relied to a very considerable extent on the information given by the Group in the course of valuation and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, floor areas and all other relevant matters.

We have been provided with copies of title documents and tenancy agreements relating to the property interests. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any lease amendments which may not appear on the copies handed to us. As no PRC legal opinions are available, we have been instructed to rely on the information given by the Group regarding the title to the property and material encumbrances.

In valuing the property interests, we have assumed that transferable land use rights in respect of the property interests at nominal land use fees has been granted and that any premium payable has already been fully settled. We have also assumed that owner of the property shall have an enforceable title of the property interests and have free and uninterrupted rights to occupy, use, sell, lease, charge, mortgage or otherwise dispose of the property without the need of seeking further approval from and paying additional premium to the Government for the unexpired land use term as granted.

We have not carried out detailed site measurements to verify the correctness of the land or building areas in respect of the property but have assumed that the areas provided to us are correct. Based on our experience of valuation of similar properties in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurements have been taken. We have also assumed that there was not any material change of the property in between date of our inspection and the valuation date.

We have inspected the exterior and, where possible, the interior of the property. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the property are free of rot, infestation or any other structural defects. No tests were carried out on any of the services. We have assumed that utility services, such as electricity, telephone, water, etc., are available.

We have not arranged for any investigation to be carried out to determine whether or not high alumina cement concrete or calcium chloride additive or pulverized fly ash, or any other deleterious material has been used in the construction of the property. We are therefore unable to report that the property is free from risk in this respect. For the purpose of this valuation, we have assumed that deleterious material has not been used in the construction of the property.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the instructing party that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

We have not undertaken a survey to determine whether the mechanical and electrical systems within the property (or the building or development in which it is located) would be adversely affected on or after the year 2000 and as such have assumed that the property and those systems would be unaffected.

When the property is located in a relatively under-developed market, such as the PRC, those assumptions are often based on imperfect market evidence. A range of values may be attributable to the property depending upon the assumptions made. While the valuer has exercised his professional judgement in arriving at the value, investors/readers are urged to consider carefully the nature of such assumptions that are disclosed in the valuation report and should exercise caution in interpreting the valuation report.

The continued turmoil and instability in the financial markets is continuing to cause volatility and uncertainty in the world's capital markets and real estate markets. There are low levels of liquidity in the real estate market and transaction levels are significantly reduced, resulting in a lack of clarity as to pricing levels and the market drivers. This combined with a general weakening of sentiment towards real estate, has resulted in a continual reappraisal of local property prices. Many transactions that are occurring involve vendors who are more compelled to sell, or purchasers who will only buy at discounted prices. In this environment, prices and values are going through a period of heightened volatility whilst the market absorbs the various issues and reaches its conclusions. As a result there is less certainty with regard to valuations with the result that market values can change rapidly in the current market conditions. The period required to negotiate a sale may also extend considerably beyond the normally expected period, which would also reflect the nature and size of the property.

In accordance with our standard practice, this valuation certificate is for the exclusive use of the party to whom it is addressed and no responsibility is accepted to the third party for the whole or any part of its contents.

Wherever the content of this report is extracted and translated from the relevant documents supplied in Chinese context and there are discrepancies in wordings, those parts of the original documents will take prevalent.

Unless otherwise stated, all amounts are denominated in Renminbi (RMB).

We enclose herewith our valuation certificate.

Yours faithfully,
For and on behalf of
GA Appraisal Limited

Evan K L Yuen *MRICS MHKIS*
Registered Professional Surveyor
General Manager – Real Estate

Note: Mr. Evan K L Yuen is a Chartered Valuation Surveyor and a Registered Professional Surveyor, who has more than 13 years' experience in the valuation of properties in the PRC, Hong Kong and the South East Asia. Mr. Evan K L Yuen is also a valuer on the List of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS.

VALUATION CERTIFICATE

	Property	Description and tenure	Particular of occupancy	Capital value in existing state as at 31 March 2009 *RMB*
1.	Room No. 101 on Level 1 and the whole of Levels 2, 3, 4 & 5, No. 270 Wu Song Road, Yaojiang Centre, Hongkou District, Shanghai Municipality, The People's Republic of China	The property comprises an office unit plus the whole of 4 office floors of an 8-storey office building built over 1 level of basement carparking spaces and completed in about 2006. The property has a total gross floor area of approximately 2,385.79 sq.m. (25,680.64 sq.ft.) which is breakdown as follows:– **Level** / **Approximate Gross Floor Area** 1 265.11 sq.m. 2 530.17 sq.m. 3 530.17 sq.m. 4 530.17 sq.m. 5 530.17 sq.m. 2,385.79 sq.m. Pursuant to Real Estate Certificates dated 1 August 2007, the term of land use rights of the property is 50 years commencing from 10 April 2002 to 9 April 2052 for office uses.	We have been informed that save and except, portion of Level 2 and the whole of Level 4 which have been leased out to an independent third party, the property was owner-occupied as office and exhibition room, as at the date of valuation. Room No. 1 on Level 2 and the whole of Level 4 have been leased out to the same tenant for a term commencing from 18 October 2008 to 28 February 2010 at a daily rent of RMB718.44 and from 1 March 2008 to 28 February 2010 at a daily rent of RMB2,120.68 respectively (both exclusive of management fees and utility charges).	59,820,000 (100% interest attributable to the Group: 59,820,000)

Notes:

1. According to the 滬房地虹字(2007)第012266號, 012267號, 012268號, 012269號及012270號(Real Estate Ownership Certificate Nos. 012266, 012267, 012268, 012269 & 012270 of 2007) all dated 1 August 2007, owner of the property is Yangzhou Sunrise Garment Co., Ltd.. The property extends to a total gross floor area of about 2,385.79 sq.m. for office uses and was acquired on 13 July 2007 for a total consideration of RMB52,487,380.

2. Pursuant to an undated tenancy agreement made between Yangzhou Sunrise Garment Co., Ltd. and Shanghai Benetton Trading Company Limited, Room No. 1 on Level 2 of the property which extends to a gross floor area of about 179.61 s.m., has been leased to the latter party for a term commencing from 18 October 2008 to 28 February 2010 at a daily rent of RMB718.44 (exclusive of management fees and utility charges).

3. Pursuant to a tenancy agreement made between Yangzhou Sunrise Garment Co., Ltd. and Shanghai Benetton Trading Company Limited on 1 March 2008, the whole of Level 4 of the property has been leased to the latter party for a term commencing from 1 March 2008 to 28 February 2010 at a daily rent of RMB2,120.68 (exclusive of management fees and utility charges).

4. Both the Landlord and the owner of the property are Yangzhou Sunrise Garment Co., Ltd.. As advised by the Company, Yangzhou Sunrise Garment Co., Ltd. is a wholly-owned subsidiary of the Company.

5. The Tenant, Shanghai Benetton Trading Company Limited, is an independent third party which is not connected with and is independent of, any of directors, chief executives or shareholders of the Company or any of its subsidiaries, or any of their respective associates.

6. In absence of legal advice on the PRC laws regarding the legal title status and development consents of the property, we have been instructed to prepare our valuation on the following assumptions and basis:–

   (i) The term of land use rights of the property is 50 years commencing from 10 April 2002 to 9 April 2052 for office uses.

   (ii) Yangzhou Sunrise Garment Co., Ltd. holds a proper legal title to the property and is entitled to occupy, use, sell, lease, charge, mortgage, transfer or otherwise dispose of the property within the residual term of its land use rights at no extra land premium or other onerous payment payable to the government. All outstanding development taxes and costs, if any, are assumed to have been settled in full.

   (iii) Full land premium, purchase price and clearance costs (if so required), have been or are assumed to have been settled in full.

   (iv) The design and construction of the property is in compliance with the local planning regulations and have been duly examined and approved by the relevant authorities. The necessary development permits, if not yet obtained, will be issued without undue delay and that will not affect sale schedule.

   (v) It is assumed that the property can be disposed of freely to both local and overseas purchasers.

   (vi) It is assumed that the property is not currently transferred or involved in any contentious or non-contentious dispute.

   (vii) It is assumed that save and except the 2 tenancies made between Yangzhou Sunrise Garment Co., Ltd. and Shanghai Benetton Trading Company Limited, the property is not subject to any mortgage, court order or other encumbrance(s).

   (viii) It is assumed that the 2 subject tenancy agreements are legal, valid, enforceable and binding upon both the concerned parties.

7. The status of the title and grant of major approvals in accordance with the information provided by the instructing party are as follows:–

	Type of Document	**Current Status**	**Date Obtained**
(a)	Sale Contract for Commodity Property	Obtained	July 2007
(b)	Real Estate Ownership Certificates	Obtained	August 2007

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

Authorised		*HK$*
2,000,000,000	Shares	200,000,000
Issued and credited as fully paid		
424,545,000	Shares	42,454,500

As at the Latest Practicable Date, the Company did not have any outstanding convertible securities or warrants in issue which confer any right to subscribe for, convert or exchange into Shares.

3. INTERESTS IN SECURITIES

(a) Interests and short positions of Directors and chief executive in shares, underlying shares and debentures

As at the Latest Practicable Date, the Directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (ii) or which were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein; (iii) or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

(i) *Shares*

Name of Director	Capacity	Number of Shares held	Approximate percentage of shareholdings
Ngok Yan Yu	Interest of a controlled corporation *(Note 1)*	152,744,205 *(Note 1)*	35.98%
Tang Chui Yi, Janny	Interest of a spouse *(Note 2)*	152,744,205 *(Note 2)*	35.98%
Lam Hon Keung, Keith	Beneficial owner	100,000	0.02%
Wong Ming Yeung	Beneficial owner	10,000	0.002%
Marcello Appella	Interest of a controlled corporation	3,588,030 *(Note3)*	0.85%
Je Kin Ming	Interest of a controlled corporation	5,980,050 *(Note4)*	1.41%
Kwan Hung Sang, Francis	Beneficial owner	270,000	0.06%

Notes:

1. These Shares were held by Charm Hero Investments Limited ("**Charm Hero**"), a wholly-owned subsidiary of Mensun Limited ("**Mensun**"), which was wholly-owned by Mr. Ngok Yan Yu, a substantial shareholder and the chairman of the Company. As such, Mr. Ngok Yan Yu was deemed or taken to be interested in the shares of the Company held by Charm Hero for the purposes of the SFO.

2. Ms. Tang Chui Yi, Janny is an executive Director and the spouse of Mr. Ngok Yan Yu. As such, Ms. Tang Chui Yi, Janny was deemed or taken to be interested in the Shares beneficially owned by Mr. Ngok Yan Yu for the purposes of the SFO.

3. These Shares were held by Sycomore Limited ("**Sycomore**"), which was owned as to 50% by Mr. Marcello Appella, an executive Director, and 50% by Mrs. Maguy, Alice, Juliette, Marie Pujol ep. Appella, the spouse of Mr. Marcello Appella. As such, Mr. Marcello Appella was deemed or taken to be interested in the Shares held by Sycomore for the purpose of the SFO.

4. These Shares were held by Capital Way Management Limited ("**Capital Way**"), a wholly-owned subsidiary of Walter International Corporation, which was wholly-owned by Mr. Je Kin Ming, a non-executive Director. As such, Mr. Je Kin Ming was deemed or taken to be interested in the Shares held by Capital Way for the purposes of the SFO.

(ii) Shares of the associated corporations of the Company

Name of director	Name of associated corporation	Capacity	Number/ class of shares held	Approximate percentage of shareholdings
Ngok Yan Yu	Complete Expert Limited ("**Complete Expert**")	Trustee	20 ordinary *(Note 1)*	20%
	Charm Hero	Interest of a controlled corporation	100 ordinary *(Note 2)*	100%
	Mensun	Beneficial owner	100 ordinary	100%
Tang Chui Yi, Janny	Complete Expert	Interest of a spouse	20 ordinary *(Note 3)*	20%
	Charm Hero	Interest of a spouse	100 ordinary *(Note 3)*	100%
	Mensun	Interest of a spouse	100 ordinary *(Note 3)*	100%

Notes:

1. Pursuant to a declaration of trust dated 1 September 2004, Mr. Ngok Yan Yu, a substantial shareholder and the chairman of the Company, held 20 shares in Complete Expert, being 20% of its entire issued share capital, in trust for Hembly Garment Manufacturing Limited, an indirect wholly-owned subsidiary of the Company.

2. Charm Hero was a wholly-owned subsidiary of Mensun which was wholly-owned by Mr. Ngok Yan Yu.

3. Ms. Tang Chui Yi, Janny is an executive director of the Company and the spouse of Mr. Ngok Yan Yu. As such, Ms. Tang Chui Yi, Janny was deemed or taken to be interested in the shares beneficially owned by Mr. Ngok Yan Yu for the purposes of the SFO.

(iii) Share options of the Company

Name of Director	Number of shares options held *(Note 1)*	Exercisable period *(Note 1)*	Approximate percentage of issued share capital of the Company	Exercise price
Ngok Yan Yu *(Note 2)*	1,007,658	14/9/2006 – 13/9/2009 *(Note 3)*	0.24%	HK$2.5802
	302,298	9/10/2007 – 8/10/2010 *(Note 4)*	0.07%	HK$4.8727
	503,829	18/8/2008 – 17/8/2018 *(Note 5)*	0.12%	HK$1.5581
	1,813,785		0.43%	
Tang Chui Yi, Janny *(Note 2)*	806,126	14/9/2006 – 13/9/2009 *(Note 3)*	0.19%	HK$2.5802
	403,063	9/10/2007 – 8/10/2010 *(Note 4)*	0.09%	HK$4.8727
	503,829	18/8/2008 – 17/8/2018 *(Note 5)*	0.12%	HK$1.5581
	1,713,018		0.40%	
Lam Hon Keung, Keith	403,063	14/9/2006 – 13/9/2009 *(Note 3)*	0.09%	HK$2.5802
	201,532	9/10/2007 – 8/10/2010 *(Note 4)*	0.05%	HK$4.8727
	100,766	18/8/2008 – 17/8/2018 *(Note 5)*	0.02%	HK$1.5581
	705,361		0.17%	

Name of Director	Number of shares options held *(Note 1)*	Exercisable period *(Note 1)*	Approximate percentage of issued share capital of the Company	Exercise price
Wong Ming Yeung	251,915	14/9/2006 – 13/9/2009 *(Note 3)*	0.06%	HK$2.5802
	302,298	9/10/2007 – 8/10/2010 *(Note 4)*	0.07%	HK$4.8727
	100,766	18/8/2008 – 17/8/2018 *(Note 5)*	0.02%	HK$1.5581
	654,979		0.15%	
Marcello Appella	503,829	14/9/2006 – 13/9/2009 *(Note 3)*	0.12%	HK$2.5802
	251,915	9/10/2007 – 8/10/2010 *(Note 4)*	0.06%	HK$4.8727
	201,532	18/8/2008 – 17/8/2018 *(Note 5)*	0.05%	HK$1.5581
	957,276		0.23%	
Antonio Piva	503,829	14/9/2006 – 13/9/2009 *(Note 3)*	0.12%	HK$2.5802
	100,766	18/8/2008 – 17/8/2018 *(Note 5)*	0.02%	HK$1.5581
	604,595		0.14%	

Name of Director	Number of shares options held *(Note 1)*	Exercisable period *(Note 1)*	Approximate percentage of issued share capital of the Company	Exercise price
Je Kin Ming	503,829	14/9/2006 – 13/9/2009 *(Note 3)*	0.12%	HK$2.5802
	100,766	18/8/2008 – 17/8/2018 *(Note 5)*	0.02%	HK$1.5581
	604,595		0.14%	

Notes:

1. The number of options held by each person is the same as the number of underlying Shares in which that person is interested pursuant to the options.

2. Ms. Tang Chui Yi, Janny is the spouse of Mr. Ngok Yan Yu. As such, Ms. Tang Chui Yi, Janny and Mr. Ngok Yan Yu were deemed or taken to be interested in the share options of each other for the purposes of the SFO. The aggregate family interest in share options is 3,526,803 which represents approximately 0.83% of the issued share capital of the Company as at the latest practicable date.

3. These share options were granted on 14 September 2006, 20% of the share options granted to the Directors would vest on 14 September 2006 and be exercisable from 14 September 2006 to 13 September 2009. Another 30% of the granted share options would vest on 14 September 2007 and be exercisable from 14 September 2007 to 13 September 2009. The remaining 50% of the granted share options would vest on 14 September 2008 and be exercisable from 14 September 2008 to 13 September 2009.

4. These share options were granted on 9 October 2007. 20% of the granted share options would vest on 9 October 2007 and be exercisable from 9 October 2007 to 8 October 2010. Another 30% of the granted share options would vest on 9 October 2008 and be exercisable from 9 October 2008 to 8 October 2010. The remaining 50% of the granted share options would vest on 9 October 2009 and be exercisable from 9 October 2009 to 8 October 2010.

5. These share options were granted on 18 August 2008, 20% of the share options granted to the Directors would vest on 18 August 2008 and be exercisable from 18 August 2008 to 17 August 2018. Another 30% of the granted share options would vest on 18 August 2009 and be exercisable from 18 August 2009 to 17 August 2018. The remaining 50% of the granted share options would vest on 18 August 2010 and be exercisable from 18 August 2010 to 17 August 2018.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Notifiable interests and short positions of substantial shareholders in the Shares

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, the following substantial shareholders (other than the Directors and chief executive of the Company) had an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Capacity	Number of Shares held	Approximate percentage of shareholdings
Mensun	Interest of a controlled corporation *(Note 1)*	152,744,205	35.98%
Charm Hero	Beneficial owner *(Note 1)*	152,744,205	35.98%
China Fortune Group Limited	Interest of a controlled corporation *(Note 2)*	89,484,115	21.08%
Fortune Financial (Holdings) Limited	Interest of a controlled corporation *(Note 2)*	89,484,115	21.08%
Fortune (HK) Securities Limited	Beneficial owner *(Note 2)*	89,484,115	21.08%

Notes:

1. These Shares were held by Charm Hero, a wholly-owned subsidiary of Mensun which in turn was wholly-owned by Mr. Ngok Yan Yu. As such, Mensun and Mr. Ngok Yan Yu were deemed or taken to be interested in the Shares held by Charm Hero for the purpose of the SFO, and Ms. Tang Chui Yi, Janny, being the spouse of Mr. Ngok Yan Yu, was also deemed or taken to be interested in the Shares held by Charm Hero for the purpose of the SFO.

2. These Shares were held by Fortune (HK) Securities Limited, a wholly-owned subsidiary of Fortune Financial (Holdings) Limited, which was in turn a wholly-owned subsidiary of China Fortune Group Limited. As such, Fortune Financial (Holdings) Limited and China Fortune Group Limited were deemed to be beneficially interested in the said shares held by Fortune (HK) Securities Limited for the purposes of the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company were not aware of any substantial shareholder of the Company within the meaning of the Listing Rules or other person (in each case other than a Director or chief executive of the Company) who had, as at the Latest Practicable Date, an interest or a short position in Shares or underlying Shares which was required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO.

(c) Interests in 10% or more of shares in subsidiaries

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, the following persons (not being a member of the Group or a Director or chief executive of the Company) were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the subsidiaries of the Company or in any options in respect of such capital:

Name of subsidiary	Name of shareholder	Number of shares held or extent of registered capital interested	Approximate percentage of the existing issued share capital or registered capital of the subsidiary
Pro-Brilliance International Development Limited	Long Wise (Holdings) Limited	35 *(Note 1)*	35%
Pro-Brilliance International Development Limited	Wong Hei See	35 *(Note 1)*	35%
M.D.T. Sourcing (China) Limited	Rich Merit Investments Limited	382,200 *(Note 2)*	49%
Well Metro	All Field	1,500 *(Note 3)*	17%

Notes:

1. The 35 shares were held in trust by Long Wise (Holdings) Limited for the benefit of Ms. Wong Hei See pursuant to a declaration of trust dated 9 August 2003.

2. The 382,200 shares were held by Rich Merit Investments Limited.

3. The 1,500 preferred shares were held by All Field which was a wholly-owned subsidiary of New World Strategic Investment Limited, which in turn was wholly-owned by NWD.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company were not aware of any person (other than a member of the Group or a Director or chief executive of the Company) who was, as at the Latest Practicable Date, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the subsidiaries of the Company or in any options in respect of such capital.

4. DIRECTORS' SERVICE CONTRACTS

Executive Directors

Each of the executive Directors has entered into a service contract with the Company. Particulars of these contracts are set out below:

Each of the service contracts is for an initial term of three years commencing from 15 June 2006 unless terminated by not less than three months' notice in writing served by either the Director or the Company. In certain other circumstances, each service contract can also be terminated by the Company, including but not limited to serious breaches of the Directors' obligations under the service contracts or serious misconduct.

The current basic annual salaries of the executive Directors are as follows:

Name of Director	**Amount** *(HK$)*
Mr. Ngok Yan Yu	1,200,000
Mr. Lam Hon Keung, Keith	360,000
Ms. Tang Chui Yi, Janny	1,800,000
Mr. Wong Ming Yeung	720,000
Mr. Marcello Appella	845,460 *(Note)*

Note: Mr. Marcello Appella is entitled to an annual salary of EUR84,000

Exchange rate as at Latest Practicable Date is EUR 1 = HK$10.065

In addition, for the financial year ended 31 December 2007 and each of the financial years thereafter, the executive Directors are also entitled to a discretionary bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of the Company may not exceed 15% of the audited consolidated or combined net profit of the Group (after taxation and minority interests but before extraordinary and exceptional items) in respect of the financial year of the Group.

Non-executive Directors and independent non-executive Directors

Letters of appointment have been signed by the Company with the non-executive Directors and independent non-executive Directors. The non-executive Directors and the independent non-executive Directors have been appointed for a term of three years commenced from 15 June 2006 (save for Antonio Piva's letter of appointment which commencing on 31 July 2007). Save for directors' fees of HK$30,000.00 and HK$20,000.00 per month for each of the non-executive Directors and the independent non-executive Directors respectively, none of the non-executive Directors or independent non-executive Directors is expected to receive any other remuneration for holding their offices as a non-executive Director or independent non-executive Director.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation, other than statutory compensation).

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business, which competed or was likely to compete, either directly or indirectly, with the business of the Group.

6. OTHER INTERESTS OF THE DIRECTORS

As at the Latest Practicable Date:

(a) save as contracts (a) and (e) set forth under the paragraphs headed "Material Contracts" in this section, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group; and

(b) none of the Directors had any direct or indirect interests in any assets which had been, since 31 December 2008 (the date to which the latest published audited accounts of the Company were made up), acquired, disposed of by, or leased to any member of the Group, or were proposed to be acquired, disposed of by, or leased to any member of the Group.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any members of the Group were engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any members of the Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) had been entered into by the Company and/or members of the Group within two years immediately preceding the Latest Practicable Date which are or may be material:

(a) A conditional sourcing agreement dated 25 May 2007 made between Hembly Garment Manufacturing Limited ("HGM"), a wholly-owned subsidiary of the Company, and H4T s.r.l. (now renamed and re-constituted as Sergio Tacchini International S.p.A.), a company incorporated in Italy and directly wholly-owned by Ngok Yan Yu, the chairman, executive director and substantial shareholder of the Company, pursuant to which H4T s.r.l. was appointed HGM's exclusive sourcing supplier for all sourcing of sport apparel, leisure wear and related accessories bearing the trademarks of "S.T." and/or "Sergio Tacchini" that will be manufactured in Asia for the period from 1 June 2007 to 31 December 2008. This sourcing agreement became unconditional on 22 August 2007, as it has on that same day received the Company's independent shareholders' approval;

(b) An agreement dated 26 June 2007 between Charm Talent Investments Limited ("Charm Talent"), which sole director was a director of the Group's non wholly owned subsidiary within the last 12 months from this agreement and was also a substantial shareholder of Well Metro as at the date of this agreement and Spring Castle Group Limited ("Spring Castle"), an indirectly wholly-owned subsidiary of the Company, wherein Charm Talent sold to Spring Castle 25 shares in Well Metro Group Limited ("Well Metro"), another indirectly non wholly-owned subsidiary of the Company. These 25 shares in Well Metro then represented 25% of the registered capital of Well Metro and the consideration for these 25 shares in Well Metro was HK$20,800,000.00;

(c) A placing and underwriting agreement dated 29 June 2007 made between Charm Hero Investments Limited ("Charm Hero"), a company wholly-owned by Ngok Yan Yu, the chairman, executive director and substantial shareholder of the Company and UOB Kay Hian (Hong Kong) Limited ("UOB"), the placing agent, upon which UOB has agreed to underwrite the placing of 23,800,000 placing shares ("Placing Shares") held by Charm Hero to independent parties which are third parties independent of the Company and connected persons at HK$4.29 per Placing Share, upon which completion of the placing would take place on or before 13 July 2007. On 29 June 2009, a subscription agreement was also entered into between the Company and Charm Hero, upon which Charm Hero conditionally agreed to subscribe for 23,800,000 new subscription shares ("Subscription Shares") from the Company again at HK$4.29 per Subscription Share;

(d) An agreement dated 19 December 2007 entered into by, inter alia, Spring Castle, an indirectly wholly-owned subsidiary of the Company and All Field Investments Limited ("All Field"),a wholly-owned subsidiary of New World Strategic Investment Limited, wherein Spring Castle agreed to sell to All Field the 1,500 redeemable cumulative convertible preferred shares ("Preferred Shares") with par value of US$1.00 each in the capital of Well Metro, a then indirectly non wholly-owned subsidiary of the Company. The Preferred Shares, which were sold at the consideration of HK$90,859,500.00, represented 16.67% of Well Metro's then existing issued share capital;

(e) A conditional sourcing agreement dated 14 November 2008 made between HGM, a wholly-owned subsidiary of the Company, and Sergio Tacchini International S.p.A., a company incorporated in Italy and directly wholly-owned by Ngok Yan Yu ("Mr. Ngok"), the chairman, executive director and substantial shareholder of the Company, pursuant to which Sergio Tacchini International S.p.A. was re-appointed HGM's exclusive sourcing supplier for all sourcing of sport apparel, leisure wear and related accessories bearing the trademarks of "S.T." and/or "Sergio Tacchini" that will be manufactured in Asia for the period from 1 January 2009 to 31 December 2011. This sourcing agreement became unconditional on 30 December 2008 as it has on that same day received the Company's independent shareholders' approval;

(f) the Agreement; and

(g) the underwriting agreement dated 20 January 2009 entered into among the Company, Mr. Ngok and Fortune (HK) Securities Limited ("Fortune") in relation to the issue of 141,515,000 Shares by way of an open offer (the "Open Offer") pursuant to which Fortune agreed to fully underwritten the untaken 89,484,115 Shares under the Open Offer.

9. EXPERTS AND CONSENTS

(a) The following are the qualifications of the experts who have given their opinions or advice which are contained in this circular:

Name	**Qualifications**
Cinda	licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO
Deloitte Touche Tohmatsu ("DTT")	Certified Public Accountants
GA Appraisal Limited ("GA")	Independent professional property valuers

(b) As at the Latest Practicable Date, Cinda, DTT and GA had no shareholding in any members of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) As at the Latest Practicable Date, Cinda, DTT and GA had no direct or indirect interests in any assets which had been, since 31 December 2008 (the date to which the latest published audited accounts of the Company were made up), acquired, disposed of by, or leased to any member of the Group, or were proposed to be acquired, disposed of by, or leased to any member of the Group.

(d) Cinda, DTT and GA have given and have not withdrawn their written consent to the issue of this circular with inclusion of their letters and the reference to their names included herein in the form and context in which they respectively appear.

10. GENERAL

(a) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

(b) The secretary of the Company is Ms. Kwan Shin Luen, Susanna. Ms. Kwan is a qualified lawyer in Hong Kong and the United Kingdom.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company at 36th Floor, No.1 Hung To Road, Kwun Tong, Kowloon, Hong Kong from the date of this circular up to and including 13 May 2009:

(a) the Company's memorandum and articles of association;

(b) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 14 of this circular;

(c) the letter of advice from Cinda, the text of which is set out on pages 15 to 24 of this circular;

(d) the accountants' report on the Group set out in Appendix I to this circular;

(e) the unaudited pro forma financial information of the Remaining Group set out in Appendix II to this circular;

(f) the valuation report on the Property set out in Appendix III to this circular;

(g) the written consents of Cinda, DTT and GA referred to in the section headed "Experts and Consents" in this appendix;

(h) the service contracts referred to in the section headed "Directors' Service Contracts" in this appendix;

(i) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(j) the Company's annual reports for the two years ended 31 December 2007 and 2008;

(k) the Company's circular since 31 December 2008; and

(l) this circular.

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: 03989)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Hembly International Holdings Limited (the "**Company**") will be held at 10:00 a.m. on Wednesday, 13 May 2009, at 36th Floor, 1 Hung To Road, Kwun Tong, Hong Kong for the purposes of considering and, if thought fit, passing with or without modifications the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:

(a) the conditional agreement dated 3 December 2008 (the "**Agreement**", a copy of which has been produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification) entered into among the Company as guarantor, Spring Castle Group Limited as seller (the "**Seller**") and Luxba Group Limited (formerly known as Primewill Investments Limited) as purchaser (the "**Purchaser**") pursuant to which the Seller has conditionally agreed to dispose of, and the Purchaser has conditionally agreed to purchase 7,500 common shares with a par value of US$1.00 each in the share capital of Well Metro Group Limited and implementation of all transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and

(b) the directors of the Company be and are hereby authorised to sign, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their absolute discretion consider necessary or expedient for the purpose of or in connection with the implementation of the Agreement and all transactions and other matters contemplated thereunder or ancillary thereto, to waive compliance from and/or agree to any amendment or supplement to any of the provisions of the Agreement which in their opinion is not of a material nature and to effect or implement any other matters referred to in this resolution."

By Order of the Board of
Hembly International Holdings Limited
Ngok Yan Yu
Chairman

Hong Kong, 24 April 2009

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or, where that member holds two or more shares, more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.

2, A proxy form is enclosed. Whether or not you intend to attend the meeting in person, you are requested to complete and return the proxy form in accordance with the instructions printed thereon.

3. To be valid, a proxy form, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power or authority, must be deposited at the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time fixed for the holding of the meeting or any adjournment thereof.

4. Where there are joint holders of any ordinary share of the Company, any one of such holders may vote at the meeting, in person or by proxy, in respect of such share as if he or she was solely entitled thereto, but if more than one of such holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding. Several executors or administrators of a deceased shareholder in whose name any share stands shall for this purpose be deemed joint holders thereof.

5. Completion and return of the proxy form shall not preclude a shareholder of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing such a proxy shall be deemed to be revoked.

6. In accordance with the Listing Rules, NWD and its associates shall abstain from voting in respect of the resolution set out in the notice above which shall be voted only by way of poll.

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

8. Votes on the ordinary resolution to be proposed will be taken by way of poll.