HEMBLY

HEMBLY INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3989

2008 Annual Report

contents

corporate information

BOARD OF DIRECTORS

Executive Directors

Mr. Ngok Yan Yu *(Chairman)*
Mr. Lam Hon Keung, Keith *(Deputy chairman)*
Ms. Tang Chui Yi, Janny *(Chief executive officer)*
Mr. Wong Ming Yeung
Mr. Marcello Appella
Ms. Tang Wai Ha (resignation effective on 18 February 2009)

Non-executive Directors

Mr. Antonio Piva
Mr. Je Kin Ming

Independent Non-Executive Directors

Mr. Lo Ming Chi, Charles
Mr. Pao Ping Wing
Mr. Kwan Hung Sang, Francis

COMMITTEES

Audit Committee

Mr. Lo Ming Chi, Charles *(Chairman)*
Mr. Pao Ping Wing
Mr. Kwan Hung Sang, Francis

Nomination Committee

Mr. Ngok Yan Yu *(Chairman)*
Mr. Lo Ming Chi, Charles
Mr. Pao Ping Wing
Mr. Kwan Hung Sang, Francis

Remuneration Committee

Mr. Pao Ping Wing *(Chairman)*
Mr. Kwan Hung Sang, Francis
Mr. Ngok Yan Yu

COMPANY SECRETARY

Ms. Kwan Shin Luen, Susanna

AUTHORIZED REPRESENTATIVES

Mr. Ngok Yan Yu
Ms. Kwan Shin Luen, Susanna

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

36/F., No. 1 Hung To Road
Kwun Tong
Kowloon
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISER

Conyers Dill and Pearman

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
Bank of China (Hong Kong) Limited

SHARE REGISTRARS AND TRANSFER OFFICES

Principal Registrar in Cayman Islands

Butterfield Fulcrum Group (Cayman) Limited
(formerly known as Butterfield Fund Services (Cayman) Limited)
Butterfield House
68 Fort Street
P. O. Box 705
George Town
Grand Cayman
Cayman Islands

Branch Registrar in Hong Kong

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

CORPORATE WEBSITE

www.hembly.com

STOCK CODE

03989

management discussion and analysis

OVERVIEW

The Group's revenue reached approximately HK$1,356.4 million, representing an increase of 30.8% over last year. The net profit attributable to the Company's equity holders amounted to approximately HK$7.8 million for the year under review, given provisions for impairment for the aggregate approximate amount of HK$64.8 million were made, as called upon by the Company's conditional disposal of its share at Well Metro Group Limited and its subsidiaries (collectively "Well Metro Group"). For reference, Well Metro Group is the distribution and retailing business arm of the Group.

Given the course global market conditions, which calls for the need for prudent allocation of resources, the Board does not recommend the payment of a final dividend for the year ended 31 December 2008. Thus, the interim dividend of HK3.0 cents per share paid on 6 November 2008 represented the total dividend of HK3.0 cents per share paid for the year 2008.

SUPPLY CHAIN SERVICES

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 Group's revenue for supply chain services 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 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 Group's gross profit for supply chain services 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 Group to work through the global credit crunch. This dual operation model has clearly allowed the 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 Group vast new opportunities. In times of financial turmoil, stringent production cost control and sourcing capabilities become crucial. The 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 Group has acquired from Europe. These measures had definitely increased the 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 Group's success, Hembly will continue to focus its resources and manpower to maximize our competitiveness in this area.

To strengthen the 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.

DISTRIBUTION AND RETAILING BUSINESSES

Though the Group's distribution and retailing businesses continued to benefit from a favorable business environment in the first half of year 2008, the Group shouldered great operating pressure from the poor economic environment, which decreased consumers' purchasing confidence in the second half year.

During the year under review, revenue for the Group's distribution and retailing businesses totaled approximately HK$261.6 million, recording a growth of approximately 111.7%, as compared to last year and this accounted for approximately 19.3% of the Group's revenue. Gross margin reached approximately 46.1%.

To better allocate resources, Hembly purchased, from Stonefly its 50% shareholding in the 50:50 Stonefly joint venture and sold its 50% shareholding within the Lotto joint venture to Lotto. The gain on disposal of the Lotto joint venture accrued to the Group was in the amount of approximately HK$15.1 million. By the same token, the Group has, as of 1 January 2009, sold its 50% shareholding in the 50:50 Sisley joint venture back to Benetton S.p.A..

During the year under review, the gross margin of the Sisley joint venture, the gross margin of Stonefly and the gross margin of Moschino are approximately 55.3%, 48.8% and 58.6% respectively.

PROSPECT

Throughout the years, Hembly's supply chain business has remained the number one contributor to the 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 Group's vision towards vertical integration, the unexpected global financial melt-down had adversely affected all industries, with luxury businesses being its casualties.

In light of the current market conditions, the Board views that it is of paramount importance that the Group should exercise stringent control of its financial resources at hand. Having appraised the Group's principal supply chain business focus, the Board took the view that in the current difficult times, it is not in its best interest to devote valuable time and financial resources to its distribution and retailing arm (namely via the Well Metro Group), which would in turn divert the Group's resources in its principal business. As such, on 3 December, 2008, the Group and its wholly-owned subsidiary, Spring Castle Group Limited ("Spring Castle"), entered into the conditional sale and purchase agreement with Primewill Investments Limited ("Primewill"), an associate of New World Development Company Limited, pursuant to which the Group conditionally disposed to Primewill its share at Well Metro Group Limited ("Well Metro"), the investment holding company which holds the subsidiaries engaged in business of distribution and retailing of apparel and accessories in the PRC for an aggregate cash consideration of HK$100,000,000. This agreement may became conditional in May 2009 subject to Hembly's independent shareholders' approval at an extraordinary general meeting of Hembly. Subject to the approval of independent shareholders and all necessary approvals from relevant government authorities, the aforesaid conditional disposal is expected to complete by the end of May 2009.

The net proceeds from the aforesaid condition disposal will enhance the liquidity of the Group and enable the 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 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 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 Group's core business, the Directors expect the Group's leading supply chain services will continue to achieve satisfactory results despite severe business environment. Further, the Group's value added supply chain services, which ride on Europe's outsourcing trend, will continue to enhance the Group's competitiveness in the market in the coming year.

OPERATING EXPENSES

In 2008, the Group's distribution and selling expenses increased significantly by 110.0% to HK$133.3 million, as compared to last year, which as a percentage of revenue, increased from 6.1% to 9.8%. This substantial increase was principally attributable to increased freight charges, shop rental, staff costs and depreciation charges. This substantial increase was especially steep when compared to last year given the Group only launched the brands of Sisley and Moschino during the fourth quarter of last year. As such, more related distribution and selling costs would naturally have been incurred by the Group within the year under review than compared with last year. Retailing attracts a higher selling expense component, as compared to supply chain services, because retailing includes also advertising, sponsorship and promotional expenses, salaries and benefits of sales staff, rental and renovation expenses of retail stores as well as transportation and logistics expenses.

The Group's administrative expenses increased by 11.9% from HK$134.1 million to HK$150.0 million. This increase is mainly attributable to its increased staff costs. Higher expenses in staff salaries and emoluments also contributed to the increase in administrative expenses. With astute expenditure management, the Group's administrative expenses, which as a percentage of revenue, decreased from 12.9% last year to 11.1% this year, earmarking the Group's improved operational efficiency.

FINANCE COSTS

Finance costs increased by 43.7% to HK$58.2 million, as compared to last year. This substantial increase is mainly attributable to the Group's increased bank borrowings. Meanwhile, for the year under review, the Group also bore an additional finance cost of approximately HK$11.2 million, representing the effective interest expense on the convertible redeemable preference shares issued at Well Metro, which issuance was made in December 2007.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2008, the Group had cash and cash balances of HK$309.1 million, primarily denominated in RMB and HK dollars (31 December 2007: HK$474.1 million), and total bank borrowings of HK$578.6 million (31 December 2007: HK$683.7 million), of which 64.3% constitute short-term bank borrowings and 35.7% long-term bank borrowings. The Group's bank borrowings was primarily denominated in RMB, HK dollars and US dollars. As at 31 December 2008, 35.6%, 37.2%, and 27.2% of the Group's total bank borrowings were denominated in RMB, HK dollars and US dollars, respectively, with 36.0% of the total bank borrowing subject to fixed interest rates and 64.0% subject to floating interest rates.

The net gearing ratio, which is calculated on the basis of total bank borrowings (net of cash and bank balances) over the Group's total shareholders' equity, increased from 0.36 as at 31 December 2007 to 0.45 as at 31 December 2008. The current ratio, which is calculated on the basis of current assets over current liabilities, decreased from 1.74 as at 31 December 2007 to 1.57 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 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 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 Group adopts stringent internal hedging policies, which, during the year, had the strategy of holding the Group's majority monetary assets in RMB. During the year, the Group has adopted no formal hedging policies and no instruments have been applied for foreign currency hedging purposes. The management will continue to monitor the foreign exchange exposure flexibly and engage in timely and appropriate hedging activities when needed.

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

CHARGES ON ASSETS

As at 31 December 2008, the 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$188.2 million, investment property at fair value of HK$29.9 million, and land use rights with an aggregate net book value of HK$67.6 million were pledged to secure general banking facilities and bank borrowings granted to the Group.

CAPITAL COMMITMENT

As at 31 December 2008, the Group had capital commitment of HK$8.9 million in respect of acquisition of property, plant and equipment, which were contracted but not provided for in the consolidated financial statements.

CONTINGENT LIABILITIES

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

EMPLOYMENT INFORMATION

As at 31 December 2008, the Group had about 2,165 employees in total, stationed mainly in the PRC, Hong Kong and Europe. The Group's emolument policies, which are reviewed periodically, are linked to the performance of individual employees and are based on salary trends prevailing in the aforesaid regions.

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

board of directors and senior management

EXECUTIVE DIRECTORS

Mr. Ngok Yan Yu, aged 36, is the chairman of the Company and founder of the Group. Mr. Ngok has over 12 years of experience in the garment industry in Hong Kong and the PRC. He is responsible for the formulation of overall corporate direction and business strategy of the Group. Mr. Ngok is also responsible for supervising the new business development of the Group. He previously worked for the accounting and sales departments in the Jiangsu Garment Export & Import Company, a state-owned import and export company in the PRC, for five years. He resigned from the Jiangsu Garment Export & Import Company in 1996 and started his garment trading business in 1997. He graduated from Nanjing International Relations Institute with a major in English and attained a Master Degree in Environmental and Natural Resources Protection Law from Hohai University. He is the spouse of Ms. Tang Chui Yi, Janny.

Mr. Lam Hon Keung, Keith, aged 69, is the deputy chairman of the Company. He joined the Group in June 2006 and is responsible for business advisory and strategic consulting to the Group. Mr. Lam was a former district board member as well as a former appointed legislative councilor, a former committee member of Far East Exchange Limited, a former council member and the vice-chairman of the management committee of the Stock Exchange (1988), a director of Hong Kong Securities Clearing Company Limited (1990 – 1994), the Hong Kong District Affairs Adviser to Xinhua News Agency (Hong Kong branch) (1994 – 1997), a member of the Board of Kowloon-Canton Railway Corporation (1998 – 2002), a member of the board of management of the Chinese Permanent Cemeteries (1997 – 2003), a member of Social Welfare Advisory Committee (2000 – 2006) and a member of management committee of Hong Kong Paralympians Fund (2001 – 2005). Apart from his other positions in various companies, Mr. Lam is an independent non-executive director of Wah Ha Realty Company Limited, which is a company listed on the Stock Exchange. He is also the chairman of the Hong Kong Buddhist Hospital, the vice chairman of the Hong Kong Buddhist Association, a director of Buddhist Heung Hoi Ching Kok Lin Association and Buddhist Li Chong Yuet Ming Nursing Home for the Elderly, senior consultant of the Association for Stock Enterprises, Jiangsu Province, the PRC, investment consultant of Yangzhou Municipal People's Government, the PRC, the supervisor of Buddhist Mau Fung Memorial College and Buddhist Chi Hong Chi Lam Memorial College. Mr. Lam was bestowed a badge of honour in 1977 and was appointed as an unofficial Justice of the Peace of Hong Kong in 1981. He was also bestowed an officer of The Order of the British Empire (O.B.E.) in 1993 and he is a fellow of the Hong Kong Institute of Directors and a fellow of Chartered Management Institute.

Ms. Tang Chui Yi, Janny, aged 45, is the chief executive officer and the co-founder of the Group. Ms. Tang is responsible for the day-to-day management of the Group. She has 20 years of experience in the garment industry with a strong garment business management capability. Prior to the establishment of the Group, Ms. Tang worked as a merchandiser for Yangtzekiang Garment Manufacturing Co., Ltd., a company listed on the Stock Exchange. She had also worked for a US based buying office in Hong Kong as a merchandising manager and was responsible for supervising the team in the textile division of such company, liaising with buyers and vendors and following through from sampling to shipments. She graduated from Hong Kong Polytechnic University with a Professional Diploma in Fashion & Clothing Technology in November 1988 and obtained a Master Degree in Management from the University of Kent at Canterbury, United Kingdom in July 1990. She is the spouse of Mr. Ngok Yan Yu and a cousin of Ms. Tang Wai Ha.

Mr. Wong Ming Yeung, aged 42, is an executive director of the Company. Mr. Wong joined the Group in June 2001. He is responsible for sales and marketing of the Group in Hong Kong. He has over 17 years of experience in the textile and garment industry at various posts such as merchandiser and sales manager and was responsible for handling and following up orders and liaising with overseas buyers. He graduated from the Hong Kong Polytechnic University in November 1990 with a Higher Diploma in Textile and Clothing Studies.

Ms. Tang Wai Ha, aged 46, was appointed is an executive director of the Company on 9 October 2007. Ms. Tang joined the Group in September 2005 and was responsible for the overall management of the Group's distribution and retailing business. Ms. Tang previously worked for Arthur Andersen and PricewaterhouseCoopers. She specialised in the areas of tax and business advisory. She is particularly familiar with the PRC market. She obtained a Bachelor Degree in Education from the University of Bristol in the United Kingdom and a post-graduate Diploma in Accounting and Finance in London School of Economics and Political Science, University of London. She is a member of the Institute of Chartered Accountants in England and Wales and a certified public accountant of the Hong Kong Institute of Certified Public Accountants. She is a cousin of Ms. Tang Chui Yi, Janny. As a result of ill health, Ms. Tang effectively resigned from the Company on 18 February 2009.

Mr. Marcello Appella, aged 54, is an executive director of the Company. Mr. Appella joined the Group in 2001. He is responsible for sales and marketing of the Group in France. He has over 28 years of experience in the apparel industry and has accumulated substantial business knowledge in both the European and Asian markets. Prior to joining the Group, Mr. Appella had assumed various positions from technical advisor to general manager for international brand names such as Eminence, New Man, Adidas and Jockey International. He obtained a Diploma in Technology from the University of Montpellier, France in July 1976 and a Diploma in Engineering from the National College of Textile Industries of Mulhouse, France in July 1980.

NON-EXECUTIVE DIRECTORS

Mr. Antonio Piva, aged 54, is a non-executive director of the Company. Mr. Piva joined the Group in May 2005 and before the re-designation of his executive role to non-executive role on 13 July 2007, he was responsible for the business development of the Group in Italy. Prior to joining the Group, Mr. Piva was the operation general manager of Benetton in Croatia. He started his career with Benetton S.p.A. in Italy in 1985 and had been managing various subsidiaries of the Benetton group in the US and Italy since then. Mr. Piva has more than 24 years of experience in the apparel industry. He obtained a Diploma in Accounting and Business Administration from Instituto Tecnico Statale Commerciale e per Geometri A. Martini in Italy in 1973.

Mr. Je Kin Ming, aged 41, was appointed as a non-executive director of the Company in June 2006. Mr. Je has over 18 years of experience in corporate restructuring, strategic and financial management, corporate finance and merger & acquisition in the Greater China region. Mr. Je was an executive director (corporate finance) at Credit Agricole Indosuez and a director of Indosuez W.I. Carr Securities Limited, responsible for the investment banking and securities business in the Greater China region. Prior to that, Mr. Je was a director and the head of business development at Dresdner Kleinwort Wasserstein, responsible for its Greater China corporate finance business and a vice president at NatWest Markets Corporate Finance Asia Ltd. Before entering the investment banking field, Mr. Je was an audit manager at Arthur Andersen and a senior auditor at Deloitte Touche Tohmatsu. Mr. Je graduated from the Hong Kong Polytechnic with a Professional Diploma in Accountancy. He furthered his studies in the University of Wales and the Manchester Business School (U.K.) and graduated with a Master Degree in Business Administration. He is a fellow member of the Association of Chartered Certified Accountants, a certified public accountant (Practising) of the Hong Kong Institute of Certified Public Accountants and a member of the Hong Kong Securities Institute.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lo Ming Chi, Charles, aged 59, was appointed as an independent non-executive director of the Company in June 2006. He has over 30 years of professional and business experience in financial and investment services in Australia, Hong Kong and other Asian countries. He was appointed as Justice of the Peace of Australia in 1983. He is a certified practising accountant in Australia and is a fellow member of the Financial Services Institute of Australasia. He is an independent non-executive director of Tak Sing Alliance Holdings Limited and Cash Financial Services Group Limited and the deputy chairman & chief executive officer of Poly Development Holdings Limited (formerly known as Xin Corporation Limited), all of which are listed on the Stock Exchange.

Mr. Pao Ping Wing, JP, aged 61, was appointed as an independent non-executive director of the Company in June 2006. He had been actively serving on government policy and executive bodies, including those relating to town planning, urban renewal, public housing and environment matters for 23 years. He has been appointed as a Justice of the Peace of Hong Kong since 1987. He was an ex-Urban Councilor. He obtained a Master of Science Degree in Human Settlements Planning and Development from the Asian Institute of Technology in Thailand in 1980. He was elected as one of the Ten Outstanding Young Persons of Hong Kong in 1982 and one of the Ten Outstanding Young Persons of the World in 1983. He is an independent non-executive director of Oriental Press Group Limited, Sing Lee Software (Group) Limited, UDL Holdings Limited, Zhu Zhou CSR Times Electric Co. Ltd and Maoye International Holdings Limited, all of which are listed on the Stock Exchange.

Mr. Kwan Hung Sang, Francis, aged 58, was appointed as an independent non-executive director of the Company in June 2006. Mr. Kwan has over 38 years of experience in exchange operations, commercial banking, investment and risk management in Hong Kong and Canada. He has held senior positions in The Hong Kong Exchanges and Clearing Limited for almost 10 years including chief operations officer of The Hong Kong Futures Exchange Limited and senior vice president, responsible for the integration programme office and group risk management division of The Hong Kong Exchanges and Clearing Limited. Prior to that, he had also worked with a number of international banks and financial institutions. Mr. Kwan obtained a Management Development Certificate from the University of British Columbia in Canada in 1989. He is currently the chairman of USP Enterprise Limited, Rise & Shine Enterprise Limited, Foods for Beauty Enterprise Limited and Hope Marketing Consultant Company Limited, the former two companies engaging in the distribution of health products and the latter in the sales and marketing of natural health food products. Since September 2005, he has been an independent non-executive director of Tianjin Port Development Holdings Limited, which is a company listed on the Stock Exchange.

SENIOR MANAGEMENT

Mr. Giovanni Orgera, aged 60, is the business development director of the Company. He joined the Group in October 2007 and is responsible for developing and leading implementation of strategies that shape future business delivery, overseeing all new business developments and maintaining a high level of industry visibility for the Group to capture new business opportunities. Mr. Orgera has 31 years of experience in corporate banking, of which he spent 15 years in Hong Kong and China. In this regard, he had the opportunity to develop diversified relationships with many Italian companies involved with the Chinese market. He obtained a Degree of Jurisprudence at the University of Bari, Italy and two post graduate Degrees in International Economics and Foreign Trade in Rome.

Mr. Corrado Oro, aged 42, is the research and development director of Hembly Garment Manufacturing Limited. He joined the Group in March 2005 and is responsible for creating, developing and over-viewing the supply chain apparel lines and selecting suitable international players and brand names as the Group's potential collaboration partners. Prior to joining the Group, he worked for the Benetton group. With 22 years of experience in the apparel industry, he has also been the product designer for man/woman clothing lines for Diesel. He obtained a Diploma in Fashion Design from Technical Institute "B. Montagna" Vicenza, Italy.

Mr. Hung Fan Sum, aged 45, is the managing director of Hembly (Nanjing) Garment Co., Ltd.. He joined the Group in January 2007 and is responsible for overall business and operation management in the region of Nanjing and Yangzhou, the PRC. He has 20 years of experience in the management of garment manufacturing and trading and has obtained a Professional Diploma in Fashion and Clothing in the Hong Kong Polytechnic University in 1988.

Mr. Wang Cheng Jun, aged 57, is the deputy general manager of Hembly (Nanjing) Garment Co., Ltd.. He joined the Group in April 2000 and is responsible for the overall business and operation management in the region of Nanjing, the PRC.

Mr. Cai Shi Wei, aged 47, is the general manager of Hembly (Yangzhou) Garment Manufacturing Co., Ltd.. He joined the Group in February 2003 and is responsible for the overall business and operation management in the region of Yangzhou, the PRC. Mr. Cai has over 10 years of experience in corporate management and administrative management. He obtained a Professional Diploma in Electronic Engineering from the Yangzhou Workers' University in 1988, a Diploma in Economic Management from the Central Party School in 2002 and a Diploma in Business Administration from University of Suzhou in 2001.

Ms. Li Fung Ying, aged 40, is the general manager of Scienward Fashion and Luxury Limited. She joined the Group in September 2007 and is responsible for the retail and wholesale of fashion and luxury brands such as Moschino and Sisley in China. She has over 15 years of retail and wholesale experience for fashion brands, inclusive of brands under the Escada group, brands under the DKNY/Donna Karan group, Diesel, brands under the BCBG group, Ungaro brand under the Ferragamo group and etc... She graduated from Hong Kong Baptist University in 1991 with a first class Bachelor Degree in Business Administration.

Ms. Kwan Shin Luen, Susanna, aged 41, is the chief legal and planning officer and the company secretary of the Company. She joined the Group in March 2006 and is responsible for the Company's legal and compliance matters. Ms. Kwan is a corporate finance lawyer, qualified in both Hong Kong and the United Kingdom. With 16 years of post qualification experience, Ms. Kwan specialises in corporate finance matters, which include venture capital incubation, pre-flotation funding, main board and second board flotation (in Hong Kong, Singapore and New York), debts and equities, plus regulation and compliance in the banking listing and IT areas. Ms. Kwan acted as the company secretary of hongkong.com, a company listed on the Stock Exchange. During the period from 2001 to 2004, Ms. Kwan was in charge of the corporate finance department of Gallant Y.T. Ho & Co., wherein she consolidated her network and exposure in cross border corporate finance and funding deals.

Mr. Lam Wai Fung, aged 35, is the financial controller of the Company. He joined the Group in July 2007 and is responsible for the finance, accounting and internal control functions of the Group. Prior to joining the Group, Mr. Lam worked for an international accounting firm in Hong Kong for over 7 years for external audit and 4 years in commercial sector as internal auditor and financial controller. Mr. Lam holds a Bachelor of Arts Degree in Accountancy. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants, a chartered financial analyst of the CFA Institute and a certified financial risk manager of the Global Association of Risk Professionals.

corporate governance report

The Board believes that high standards of corporate governance are essential to the success of the Company and is committed to maintain a high level of corporate governance standards and practices. The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2008.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code for dealing in securities of the Company by the Directors. The Model Code is also applicable to the senior management of the Company. After a specific enquiry conducted by the Company, all the Directors confirmed that they have fully complied with the required standard set out in the Model Code throughout the year.

BOARD OF DIRECTORS

The Board is primarily responsible for establishing the strategic direction of the Group, setting objective and business development plan for the Group, monitoring the performance of the senior management and assuming responsibility for corporate governance. The Board is also responsible for the approval of annual and interim results, risk management, major acquisition(s), and other significant operational and financial matters. Both the Board and the management have clearly defined roles and powers towards internal control, policies and day-to-day operation of the Group's business. The management, under the leadership of the Board, will be empowered to implement the Group's strategies and business objectives.

The Board currently comprises five executive directors, two non-executive directors and three independent non-executive directors. All of the members of the Board understand that they jointly and severally accept full responsibility to all shareholders on matters of management, supervision and operation of the Company.

Executive directors

Mr. Ngok Yan Yu *(Chairman)*
Mr. Lam Hon Keung, Keith *(Deputy chairman)*
Ms. Tang Chui Yi, Janny *(Chief executive officer)*
Mr. Wong Ming Yeung
Mr. Marcello Appella
Ms. Tang Wai Ha

(As a result of ill health, Ms. Tang Wai Ha's resignation as executive director of the Company has taken effect on 18 February 2009)

Non-executive directors

Mr. Antonio Piva
Mr. Je Kin Ming

Independent non-executive directors

Mr. Lo Ming Chi, Charles
Mr. Pao Ping Wing
Mr. Kwan Hung Sang, Francis

The biographical details of all Directors are set out in the section headed "Board of Directors and Senior Management" of this annual report. Save for Ms. Tang Chui Yi, Janny being the spouse of Mr. Ngok Yan Yu and the cousin of Ms. Tang Wai Ha, none of other Directors has any relationship including financial, business, family or other material relationship with each other.

To comply with Rule 3.10 of the Listing Rules, the Company has appointed three independent non-executive Directors whom the Company considers to have the appropriate and sufficient industry or finance experience and qualifications to carry out their duties. Pursuant to the requirements of Rule 3.13 of the Listing Rules, the Company has received annual confirmation of independence from the three independent non-executive Directors. The Company is of the view that all the independent non-executive Directors are independent.

The Board is circulated with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational, business and financial performance of the Group before each board meeting. A 14 days minimum notice is also given to the Directors before each board meeting, to give them the opportunity to prepare for their attendance of such meetings and to provide them with the opportunity to include additional matters in the meeting's agenda. Board papers are dispatched to the Directors at least 3 days before the meeting to ensure they have ample time to review the papers and be adequately prepared for the meeting. Senior management, responsible for the preparation of the Board papers, are invariably invited to present their papers and to take any questions or address any queries that the Board members may have on the papers in the meeting.

The proceedings of the Board at its meeting are conducted by the Chairman of the Company who ensures that sufficient time is allocated for discussion and consideration of each agenda item and also equal chances are being given to each Director to express their views and share their concerns.

In considering any matters or transactions at any Board meeting, the Directors are required to declare any direct or indirect interests, and shall abstain from voting at the meeting(s) where appropriate.

Minutes of the Board meetings will record in details the matters considered by the Board and the decisions reached. The draft minutes of each Board meeting are sent to the Directors for comments within a reasonable time after the meeting.

During the year, the Board had held four regular board meetings at approximately quarterly intervals. The attendance of the Directors was as follows:

	Meetings attended/held
Mr. Ngok Yan Yu	4/4
Mr. Lam Hon Keung, Keith	3/4
Ms. Tang Chui Yi, Janny	4/4
Mr. Wong Ming Yeung	4/4
Ms. Tang Wai Ha (resignation effective on 18 February 2009)	3/4
Mr. Marcello Appella	3/4
Mr. Antonio Piva	1/4
Mr. Je Kin Ming	4/4
Mr. Lo Ming Chi, Charles	4/4
Mr. Pao Ping Wing	4/4
Mr. Kwan Hung Sang, Francis	4/4

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of Chairman and Chief executive officer are separate and are not performed by the same individual. Each of them plays a distinctive role. The Chairman, Mr. Ngok Yan Yu, is responsible for the formulation of overall corporate direction and business development strategy of the Group. Mr. Ngok is also responsible for ensuring that good corporate governance practices and procedures are established, implemented and enforced. The Chief executive officer, Ms. Tang Chui Yi, Janny, is responsible for the day-to-day management of the Group and the implementation of the approved strategies.

NON-EXECUTIVE DIRECTORS

Each of the non-executive Director and independent non-executive Directors has entered into letter of appointment with the Company for a term of three years commencing from 15 June 2006 (except for Mr. Antonio Piva, whose three years term commences from 31 July 2007) and all subject to the rotational retirement provisions of the memorandum and articles of association of the Company.

REMUNERATION OF DIRECTORS

The Company established a remuneration committee on 15 June 2006 with written term of references. The remuneration committee comprises three members, a majority of whom are independent non-executive Directors. The chairman of the committee is Mr. Pao Ping Wing, an independent non-executive Director and other members are Mr. Kwan Hung Sang, Francis, an independent non-executive Director and Mr. Ngok Yan Yu, the Chairman of the Company. The principal roles and functions of the remuneration committee include:

– To make recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and senior management of the Group;

– To approve the terms of executive Directors' service contracts;

– To have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management of the Group, and make recommendations to the Board of the remuneration of non-executive Directors and independent non-executive Directors;

– To review and approve performance-based remuneration with reference to corporate goals and objectives resolved by the Board from time to time;

– To review and approve the compensation payable to executive Directors and senior management of the Group in connection with any loss or termination of their office or appointment; and

– To review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct.

During the year, the remuneration committee had held one meeting with the presence of all committee members to consider and approve the following matters:

– Grant of share options to Directors and employees;

– Recommendation for bonus and benefits payable to executive Directors, and

– Review of remuneration packages to executive Directors

As incentive to attract, retain and motivate employees or senior management to strive for future developments and expansion of the Group and to provide the Company with flexible means of rewarding and remunerating employees, the Company has adopted a share option scheme and the grantees of which include senior management and persons who hold key management positions in the Company, in addition, an annual appraisal had been conducted by the Company and employees are rewarded a performance bonus based on the results of such annual appraisal.

NOMINATION OF DIRECTORS

The Board established a nomination committee on 15 June 2006 with written terms of references. The nomination committee comprises four members, the majority of whom are independent non-executive Directors. The chairman of the committee is Mr. Ngok Yan Yu, the Chairman of the Company and other members are the three independent non-executive Directors, namely, Mr. Lo Ming Chi, Charles, Mr. Pao Ping Wing and Mr. Kwan Hung Sang, Francis. The principal roles and functions of the nomination committee include:

– To review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

– To determine the policy for the nomination of directors;

– To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

– To assess the independence of independent non-executive Directors with regard to the requirements under the Listing Rules; and

– To make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief executive officer.

All new appointment of Directors and re-nomination of Directors for re-election at the annual general meeting are first considered by the nomination committee, which recommendations would then be put forward for the Board's decision. Subsequently, all those Directors are subject to re-election by the shareholders of the annual general meeting pursuant to the memorandum and articles of association of the Company. In considering the new appointment or re-nomination of Directors, the nomination committee will focus their decisions based on attributes such as integrity, loyalty, industry exposure and professional and technical skills together with the ability to contribute time and effort to carry out their duties effectively and responsibly.

During the year, the nomination committee had held one meeting with the presence of all committee members to pass the resolution for re-nomination of Mr. Lam Hon Keung, Keith, Mr. Wong Ming Yeung, Mr. Marcello Appella, Mr. Kwan Hung Sang, Francis and Ms. Tang Wai Ha as directors, and to retire at the annual general meeting held on 27 May 2008 and stand for re-appointment and they also offered themselves for re-election by the shareholders of the Company at the 2008 annual general meeting.

AUDITORS' REMUNERATION

For the year ended 31 December 2008, the auditors' remuneration paid or payable in respect of the audit and other non-audit services provided by the auditors to the Group were as follows:

	HK$'000
Audit service	1,757
Non-audit related service	62
	1,819

AUDIT COMMITTEE

The Company established an audit committee on 15 June 2006 with written terms of references in compliance with the Code. The audit committee comprises three independent non-executive Directors, namely, Mr. Lo Ming Chi, Charles, Mr. Pao Ping Wing and Mr. Kwan Hung Sang, Francis. Mr. Lo Ming Chi, Charles is the chairman of the audit committee. All of the audit committee members possess the necessary qualifications and experience in financial matters and are well versed and well exposed in the accounting and financial areas, which are crucial to their key roles and functions. The principal roles and functions of the committee include:

– To consider and recommend to the Board on the appointment, re-appointment and removal of external auditors, and to approve their remuneration, and any question of their resignation and dismissal;

– To maintain an appropriate relationship with the Group's external auditors;

– To review the financial information of the Group; and

– To oversee the Group's financial reporting system and internal controls procedures.

During the year, the audit committee had held two meetings with the Group's senior management and its external auditors. All audit committee members were present in the meetings. The work performed by the audit committee during the year include:

– To review the interim report and interim results announcement for the six months ended 30 June 2008;

– To review the annual report and annual results announcement for the year ended 31 December 2007;

– To review the accounting principles and practices adopted by the Group and other financial reporting matters;

– To discuss with external auditor on any significant findings and audit issues;

– To discuss the effectiveness of the system of internal controls throughout the Group, including financial, operational and compliance controls, and risk management; and

– To review all significant business affairs managed by the executive Directors.

Minutes of the audit committee meeting have recorded the details of the matters considered by the audit committee members and the decisions reached. Drafts of these minutes were sent to the audit committee members for comments within a reasonable time after the audit committee meeting.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that year and in compliance with relevant laws and disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 December 2008, the Directors have selected appropriate accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and have prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group.

INTERNAL CONTROLS

The Board acknowledges its responsibilities for the Group's internal control system and has reviewed its effectiveness to ensure that all internal control measures are in place to safeguard the Group's assets and to comply with relevant regulations and best practices.

INVESTOR RELATIONS

Communication with shareholders of the Company is given the highest priority. To promote and enhance investor relations and communications, the Company has established and maintained intensive communication channels with the media, analysts and fund managers through one-on-one meetings, road shows and conferences. Designated members of the Board and the senior management of the Group are given the specific responsibilities to maintain regular dialogues with institutional investors, potential institutional investors, fund managers, shareholders and analysts to keep them abreast of the Company's development.

The Company regards the annual general meeting (the "AGM") as an important event as it provides an important opportunity for direct communications between the Board and the Company's shareholders in the presence of the Company's external auditors. All the Directors and senior management of the Group will make the special effort to attend, notwithstanding their place of residence. External auditors' presence at the meeting would also allow them to address shareholders' queries. All shareholders will be given at least 21 days' notice of the AGM and the right to demand a poll was set out in the circular dispatched together with the annual report to shareholders and they are encouraged to attend the AGM and other general meetings. The procedure of general meeting was conducted in compliance with the Listing Rules and the articles of association of the Company, where sufficient time was given to shareholders for consideration of resolutions proposed and for question and answer, leading to satisfactory communications between the management and shareholders. Announcement of the resolutions passed at the meeting was published on the website of Stock Exchange in a timely manner.

directors' report

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The Group is principally engaged in the provision of supply chain services for its supply of apparel and accessories to international brands, and distribution and retailing of apparel and footwear. Particulars of the Company's principal subsidiaries are set out in note 52 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 47 of this annual report.

An interim dividend of HK3.0 cents (2007: HK3.0 cents) per share, amounting to a total of about HK$8.5 million, was paid to shareholders of the Company on 6 November 2008.

Given the course global market conditions, which calls for the need for prudent allocation of resources, the Board does not recommend the payment of a final dividend for the year ended 31 December 2008. Thus, the interim dividend of HK3.0 cents per share paid on 6 November 2008 represented the total dividend of HK3.0 cents per share paid for the year 2008

RESERVES

The distributable reserves of the Company as at 31 December 2008, calculated in accordance with the provisions of Companies Law of the Cayman Islands, amounted to HK$212.6 million.

Movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 50 to 51 of this annual report.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 120 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

INVESTMENT PROPERTIES

The details of the properties held by the Group for investment purposes during the year, are set out in note 18 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 40 to the consolidated financial statements.

CONVERTIBLE REDEEMABLE PREFERENCE SHARES

A summary of the principal terms of the convertible redeemable preference shares is set out in note 37 to the consolidated financial statements. None of the convertible redeemable preference shares had been converted during the year.

BANK BORROWINGS

Details of the Group's bank borrowings are set out in note 36 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 49 to the consolidated financial statements, at no time during the year was the Company, its holding company, any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors or any of their spouse or children under the age of 18 to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS

The Directors during the year and up to the date of this annual report are:

Executive directors

Mr. Ngok Yan Yu *(Chairman)*
Mr. Lam Hon Keung, Keith *(Deputy chairman)*
Ms. Tang Chui Yi, Janny *(Chief executive officer)*
Mr. Wong Ming Yeung
Ms. Tang Wai Ha *(resignation effective on 18 February 2009)*
Mr. Marcello Appella

Non-executive directors

Mr. Antonio Piva
Mr. Je Kin Ming

Independent non-executive directors

Mr. Lo Ming Chi, Charles
Mr. Pao Ping Wing
Mr. Kwan Hung Sang, Francis

In accordance with article 87 of the Articles of Association of the Company, Mr. Ngok Yan Yu, Ms. Tang Chui Yi, Janny, Mr. Antonio Piva and Mr. Lo Ming Chi, Charles will retire from office by rotation and, being eligible offers themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors and still considers them to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management are set out on pages 12 to 17 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years, and will continue thereafter until terminated by either party thereto giving to the other not less than three months' prior notice in writing.

Each of the non-executive Directors and independent non-executive Directors has entered into letter of appointment with the Company and is appointed for a period of three years.

Save as disclosed above, none of the Directors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

During the year, the Group has continued its exclusive sourcing arrangements with Sergio Tacchini International S.p.A., previously known as H4T S.r.l. for the sourcing of "*Sergio Tacchini*" products. Sergio Tacchini International S.p.A. is a company indirectly wholly owned by Mr. Ngok Yan Yu, the Company's chairman and controlling shareholder and hence a connected person of the Company under Chapter 14A of the Listing Rules.

As at 20 July 2008, Scienward International Holdings Limited entered into a service agreement for a monthly management fee of about HK$83,000 with Lotto China Limited, in which Ms. Tang Wai Ha is deemed to be the interested party to the extent that she is a director of Lotto China Limited. The above said service agreement was terminated during December 2008.

Save as disclosed above, no other contracts of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the year-end or at any time during the year.

NON-COMPETITION UNDERTAKING

The independent non-executive Directors have reviewed the compliance with the non-competition undertaking by the controlling shareholders on their existing or future competing business and the independent non-executive Directors are of the view that none of the controlling shareholders nor the Directors have any interest in business, apart from the Group's business, which competes or is likely to compete, directly or indirectly with the Group's business.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2008, the interests or short positions of the Directors in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(a) Shares of the Company

Name of director	Capacity	Number of shares held	Approximate percentage of shareholdings
Mr. Ngok Yan Yu	Interest of a controlled corporation (Note 1)	101,829,470 (L)	35.98%
Ms. Tang Chui Yi, Janny	Interest of a spouse (Note 2)	101,829,470 (L)	35.98%
Mr. Lam Hon Keung, Keith	Beneficial owner	100,000 (L)	0.04%
Mr. Wong Ming Yeung	Beneficial owner	10,000 (L)	0.004%
Mr. Marcello Appella	Interest of a controlled corporation (Note 3)	3,588,030 (L)	1.27%
Mr. Je Kin Ming	Interest of a controlled corporation (Note 4)	5,980,050 (L)	2.11%
Mr. Kwan Hung Sang, Francis	Beneficial owner	180,000 (L)	0.06%

(L) denotes a long position

Notes:

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

2. Ms. Tang Chui Yi, Janny was 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.

3. These Shares were held by Sycomore Limited ("Sycomore"), which was owned as to 50% by Mr. Marcello Appella, an executive director of the Company, 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 purposes of the SFO.

4. These Shares were held by Capital Way Management Limited ("Capital Way"), which was wholly owned by Walter International Corporation, which was in turn wholly owned by Mr. Je Kin Ming, a non-executive director of the Company. 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.

(b) Shares of the associated corporations of the Company

Name of director	Name of associated corporation	Capacity	Number of shares held	Approximate percentage of shareholdings
Mr. Ngok Yan Yu	Complete Expert Limited ("Complete Expert")	Trustee (Note 1)	20 (L)	20%
	Charm Hero	Interest of a controlled corporation (Note 2)	100 (L)	100%
Ms. Tang Chui Yi, Janny	Complete Expert	Interest of a spouse (Note 3)	20 (L)	20%
	Charm Hero	Interest of a spouse (Note 3)	100 (L)	100%

(L) denotes a long position

Notes:

1. Pursuant to a declaration of trust dated 1 September 2004, Mr. Ngok Yan Yu, a controlling 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, a wholly owned subsidiary of the Company.

2. Charm Hero was wholly owned by Mensun, which was wholly owned by Mr. Ngok Yan Yu.

3. Ms. Tang Chui Yi, Janny was 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.

(c) Share options of the Company

The interests of the Directors in the share options of the Company are set out as follows:–

Name of directors	Balance as at 1 January 2008 (Number of share options)	Granted during the year (Number of share options)	Exercised during the year (Number of share options)	Balance as at 31 December 2008 (Number of share options)	Exercisable period	Exercise price	Approximate percentage of issued share capital of the Company
Mr. Ngok Yan Yu (Note 1)	1,000,000 (Note 2)	–	–	1,000,000	14/9/2006 – 13/9/2009	HK$2.60	
	300,000 (Note 3)	–	–	300,000	09/10/2007 – 08/10/2010	HK$4.91	
	–	500,000 (Note 5)	–	500,000	18/8/2008 – 17/8/2018	HK$1.57	
	1,300,000	500,000	–	1,800,000			0.64%
Ms. Tang Chui Yi, Janny (Note 1)	800,000 (Note 2)	–	–	800,000	14/9/2006 – 13/9/2009	HK$2.60	
	400,000 (Note 3)	–	–	400,000	09/10/2007 – 08/10/2010	HK$4.91	
	–	500,000 (Note 5)	–	500,000	18/8/2008 – 17/8/2018	HK$1.57	
	1,200,000	500,000	–	1,700,000			0.60%

Name of directors	Balance as at 1 January 2008	Granted during the year	Exercised during the year	Balance as at 31 December 2008	Exercisable period	Exercise price	Approximate percentage of issued share capital of the Company
	Number of share options						
Mr. Lam Hon Keung, Keith	400,000 (Note 2)	–	–	400,000	14/9/2006 – 13/9/2009	HK$2.60	
	200,000 (Note 3)	–	–	200,000	09/10/2007 – 08/10/2010	HK$4.91	
	–	100,000 (Note 5)	–	100,000	18/8/2008 – 17/8/2018	HK$1.57	
	600,000	100,000	–	700,000			0.25%
Mr. Wong Ming Yeung	250,000 (Note 2)	–	–	250,000	14/9/2006 – 13/9/2009	HK$2.60	
	300,000 (Note 3)	–	–	300,000	09/10/2007 – 08/10/2010	HK$4.91	
	–	100,000 (Note 5)	–	100,000	18/8/2008 – 17/8/2018	HK$1.57	
	550,000	100,000	–	650,000			0.23%

Name of directors	Number of share options: Balance as at 1 January 2008	Granted during the year	Exercised during the year	Balance as at 31 December 2008	Exercisable period	Exercise price	Approximate percentage of issued share capital of the Company
Ms. Tang Wai Ha	300,000 (Note 4)	–	–	300,000	7/5/2007 – 6/5/2010	HK$2.9	
	–	200,000 (Note 5)	–	200,000	18/8/2008 – 17/8/2018	HK$1.57	
	300,000	200,000	–	500,000			0.18%
Mr. Marcello Appella	500,000 (Note 2)	–	–	500,000	14/9/2006 – 13/9/2009	HK$2.60	
	250,000 (Note 3)	–	–	250,000	09/10/2007 – 08/10/2010	HK$4.91	
	–	200,000 (Note 5)	–	200,000	18/8/2008 – 17/8/2018	HK$1.57	
	750,000	200,000	–	950,000			0.34%
Mr. Antonio Piva	500,000 (Note 2)	–	–	500,000	14/9/2006 – 13/9/2009	HK$2.60	
	–	100,000 (Note 5)	–	100,000	18/8/2008 – 17/8/2018	HK$1.57	
	500,000	100,000	–	600,000			0.21%

	Number of share options						
Name of directors	**Balance as at 1 January 2008**	**Granted during the year**	**Exercised during the year**	**Balance as at 31 December 2008**	**Exercisable period**	**Exercise price**	**Approximate percentage of issued share capital of the Company**
Mr. Je Kin Ming	500,000 (Note 2)	–	–	500,000	14/9/2006 – 13/9/2009	HK$2.60	
	–	100,000 (Note 5)	–	100,000	18/8/2008 – 17/8/2018	HK$1.57	
	500,000	100,000	–	600,000			0.21%

None of the above share options were cancelled or lapsed during the year.

Notes:

1. 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 3,500,000 as at 31 December 2008.

2. These share options were granted on 14 September 2006. 20% of the granted share options 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.

3. 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.

4. These share options were granted on 7 May 2007 and would vest on 7 May 2007 and be exercisable from 7 May 2007 to 6 May 2010.

5. These share options were granted on 18 August 2008. 20% of the granted share options 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 31 December 2008, none of the Directors, chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2008, the following shareholders (other than the Directors or chief executive of the Company whose interests and short positions in the shares or underlying shares of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholders	Capacity	Number of shares held	Approximate percentage of shareholdings
Charm Hero	Beneficial owner	101,829,470 (L)	35.98%
Mensun	Interest of a controlled corporation (Note 1)	101,829,470 (L)	35.98%
Ward Ferry Management (BVI) Limited	Investment manager (Note 2)	25,508,000 (L)	9.01%
New World Development Company Limited	Interest of a controlled corporation (Note 3)	15,199,320 (L)	5.37%
New World Enterprise Holdings Limited	Interest of a controlled corporation (Note 3)	15,199,320 (L)	5.37%
New World China Industrial Limited	Interest of a controlled corporation (Note 3)	15,199,320 (L)	5.37%

Name of shareholders	Capacity	Number of shares held	Approximate percentage of shareholdings
New World China Enterprises Investments Limited	Interest of a controlled corporation (Note 3)	15,199,320 (L)	5.37%
New World Liberty China Ventures Limited	Interest of a controlled corporation (Note 3)	15,199,320 (L)	5.37%
Liberty New World China Enterprises Investments, LP	Interest of a controlled corporation (Note 3)	15,199,320 (L)	5.37%
Smart Fame Holdings Limited	Beneficial owner (Note 3)	15,199,320 (L)	5.37%

(L) denotes a long position

Notes:

1. These Shares were held by Charm Hero, which was wholly owned by Mensun. As such, Mensun was deemed or taken to be interested in the Shares held by Charm Hero for the purpose of the SFO.

2. These Shares were held as to 18,508,000 Shares by WF Asian Reconnaissance Fund Limited and as to 7,000,000 Shares by WF Asian Smaller Companies Fund Limited. Both WF Asian Reconnaissance Fund Limited and WF Asian Smaller Companies Fund Limited were managed by Ward Ferry Management (BVI) Limited in the capacity as investment manager. As such, Ward Ferry Management (BVI) Limited was deemed or taken to be beneficially interested in the Shares respectively held by WF Asian Reconnaissance Fund Limited and WF Asian Smaller Companies Fund Limited for the purposes of the SFO.

3. These Shares were held by Smart Fame Holdings Limited, a wholly owned subsidiary of New World Liberty China Ventures Ltd., which was owned as to 50% by New World China Enterprises Investments Limited and as to 50% by Liberty New World China Enterprises Investments, LP, New World China Enterprises Investments Limited was a wholly owned subsidiary of New World China Industrial Limited, which was in turn a wholly owned subsidiary of New World Enterprise Holdings Limited, which was in turn wholly owned by New World Development Company Limited. As such, New World Liberty China Ventures Ltd., New World China Enterprises Investments Limited, New World China Industrial Limited, New World Enterprise Holdings Limited, New World Development Company Limited and Liberty New World China Enterprises Investments, LP were deemed to be beneficially interested in the Shares held by Smart Fame Holdings Limited for the purposes of the SFO.

Save as aforesaid and as disclosed in the "Interests and Short Positions of the Directors in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" section of this annual report, the Company has not been notified by any person who had any interest or short position in the shares or underlying shares of the Company as at 31 December 2008 which are required to be notified to the Company pursuant to Part XV of the SFO or which are recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year, the Group had the following continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

The following continuing connected transactions are exempt from the independent shareholders' approval requirements under Rule 14A.34 of the Listing Rules and the respective amounts have not exceeded the relevant annual caps previously approved by the Stock Exchange.

Morgan Timepiece Master License Agreement

On 9 March 2004, Pro-Brilliance International Development Limited ("Pro-Brilliance"), a non-wholly owned subsidiary of the Company, and Morgan SA ("Morgan"), entered into a master license agreement ("Morgan Timepiece Master License Agreement") for a term from 9 March 2004 to 30 June 2009 (both dates inclusive), with an option to renew for a further five years upon subsequently agreed terms, pursuant to which Morgan grants to Pro-Brilliance an exclusive license, with the right to grant sub-license, to use the trademark of Morgan in connection with the manufacture, marketing, sale, distribution, promotion and advertising of clocks and watches for women (but excluding jewellery). Pro-Brilliance shall pay royalties to Morgan pursuant to the terms under the Morgan Timepiece Master License Agreement. Morgan is a substantial shareholder of a subsidiary of the Company before the Company's disposal of all its shareholding in that subsidiary to a third party on 27 June 2008. As such, up until the date of 27 June 2008, Morgan is deemed a connected person of the Company under Chapter 14A of the Listing Rules.

On the same day, Morgan, Pro-Brilliance and a sub-licensee entered into a tripartite agreement (as supplemented by a letter dated 22 April 2004) ("MT Sub-license Agreement") for the granting of the aforesaid exclusive right to the sub-licensee, which terms and renewal option are concurrent with that of the Morgan Timepiece Master License Agreement. Pursuant to the MT Sub-license Agreement, Morgan and Pro-Brilliance have agreed that the sub-licensee shall pay royalties directly to Morgan as to 80% and directly to Pro-Brilliance as to 20%. Therefore, there is no transaction between Morgan and Pro-Brilliance.

For the period ended 27 June 2008, Pro-Brilliance did not directly pay any royalties to Morgan, instead, the sub-licensee paid about HK$811,200 of royalties to Morgan.

Morgan Eyewear Master License Agreement

On 30 September 2004, Pro-Brilliance and Morgan entered into a master license agreement ("Morgan Eyewear Master License Agreement") for a term from 30 September 2004 to 30 June 2010 (both dates inclusive), with an option to renew for a further five years upon subsequently agreed terms, pursuant to which Morgan grants to Pro-Brilliance an exclusive license, with the right to grant sub-license, to use the trademark of Morgan in connection with the manufacture, marketing, sale, distribution, promotion and advertising of eyewear (sun and optical) for women. Pro-Brilliance shall pay royalties to Morgan in accordance with the terms under the Morgan Eyewear Master License Agreement. Morgan is a substantial shareholder of a subsidiary of the Company before the Company's disposal of all its shareholding in that subsidiary to a third party on 27 June 2008. As such, up until the date of 27 June 2008, Morgan is deemed connected person of the Company under Chapter 14A of the Listing Rules.

On 28 October 2004, Morgan, Pro-Brilliance and a sub-licensee entered into a tripartite agreement (as supplemented by a letter dated 22 April 2004) ("ME Sub-license Agreement") for the granting of the aforesaid exclusive right to the sub-licensee, the terms of which runs from 28 October 2004 to 30 June 2010 (both dates inclusive), with an option to renew for another five years upon subsequently agreed terms. Pursuant to the ME Sub-license Agreement, Morgan and Pro-Brilliance have agreed that the sub-licensee shall pay royalties directly to Morgan as to 80% and directly to Pro-Brilliance as to 20%. Therefore, there is no transaction between Morgan and Pro-Brilliance.

For the period ended 27 June 2008, Pro-Brilliance did not pay any royalties to Morgan, instead, the sub-licensee paid about HK$780,000 of royalties to Morgan.

For the purpose of the Listing Rules, the considerations of the transactions as described under the above sections headed "Morgan Timepiece Master License Agreement" and "Morgan Eyewear Master License Agreement" shall be aggregated together, which totally amounted to about HK$1,591,200 for the period ended 27 June 2008.

Tenancy Agreement

On 1 March 2005, Hembly (Nanjing) Garment Manufacturing Co., Ltd. ("Hembly (Nanjing)"), a wholly-owned subsidiary of the Company, and M.D.T. (Nanjing) entered into a tenancy agreement ("Tenancy Agreement"), pursuant to which Hembly (Nanjing) agreed to lease to M.D.T. (Nanjing) the factory premises comprising a portion of office premises and staff dormitory with an area of approximately 5,263 sq.m. and a canteen with an area of approximately 1,200 sq.m. located in the PRC at a monthly rental of RMB103,623 (equivalent to about HK$101,591), for a term of three years commencing from 10 March 2005 to 9 March 2008, and was renewed thereafter for 1 year at the monthly rental of RMB2,000.

M.D.T. (Nanjing) was wholly-owned by M.D.T. Sourcing (China) Limited ("M.D.T. (China)") which in turn owned as to 51% by the Company and 49% by Morgan up to the date of 27 June 2008. Thus, M.D.T. (Nanjing) was an associate of Morgan and was therefore a connected person of the Company up to the date of 27 June 2008 in light of its capacity as an associate of a substantial shareholder of a subsidiary of the Company up to the date of 27 June 2008 under Chapter 14A of the Listing Rules.

For the period ended 27 June 2008, the aggregate rental paid by M.D.T. (Nanjing) to Hembly (Nanjing) was about RMB201,975 (equivalent to about HK$226,938).

The following continuing connected transactions are non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules and the respective amounts have not exceed the relevant annual cap approved by the Stock Exchange.

As from and inclusive of 28 June 2008, M.D.T. (Nanjing) is wholly-owned by M.D.T. Sourcing (China) Limited ("M.D.T. (China)") which in turn owned as to 51% by the Company and 49% by Rich Merit Investments Limited. Thus, M.D.T. (Nanjing) is an associate of Rich Merit Investments Limited and is therefore a connected person of the Company in light of its capacity as an associate of a substantial shareholder of a subsidiary of the Company under Chapter 14A of the Listing Rules. As the rental amount involved and payable by M.D.T. (Nanjing) to Hembly (Nanjing) since and inclusive of 28 June 2008 is of a minor amount, the above-said tenancy has since 28 June 2008 become a wholly exempt transaction under Rule 14A.31 of the Listing Rules.

Sourcing Agreement

On 4 July 2007, Hembly Garment Manufacturing, a wholly-owned subsidiary of the Company entered into sourcing agreement (the "Sourcing Agreement") with Sergio Tacchini International S.p.A. for a term of 19 months commencing from 1 June 2007 to 31 December 2008. Pursuant to the Sourcing Agreement, Sergio Tacchini International S.p.A. has appointed Hembly Garment Manufacturing Limited (including all its subsidiaries and its fellow subsidiaries) as its sourcing supplier to provide exclusive sourcing services for all sourcing of sports apparel, leisure wear and related accessories bearing the trademarks of "Sergio Tacchini" that will be manufactured in Asia.

As said, Sergio Tacchini International S.p.A. is a company indirectly wholly-owned by Mr. Ngok Yan Yu, the controlling shareholder and chairman of the Company and hence a connected person of the Company under Chapter 14A of the Listing Rules.

For the year ended 31 December 2008, the provision of sourcing services by Hembly Garment Manufacturing Limited, its subsidiaries and fellow subsidiaries to Sergio Tacchini International S.p.A. amounted to about HK$214,523,000.

The Stock Exchange has granted the Company a waiver for a period of three years period up to 31 December 2008 from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of the Morgan Timepiece Master License Agreement, the Morgan Eyewear Master License Agreement and the Tenancy Agreement.

The independent non-executive Directors had reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

1. in the ordinary and usual course of its business;

2. on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties; and

3. in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have reviewed the above transactions, and have confirmed in a letter to the Directors stating that:

1. the transactions have been approved by the Board;

2. the details of the transactions were entered into in accordance with the terms of the relevant agreements governing such transactions; and

3. the transactions have not exceed the caps approved by the Stock Exchange.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as at the date of this report.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for 53% of the Group's total sales for the year and sales to the Group's largest customer included therein accounted for 25%.

Sergio Tacchini International S.p.A. (formerly known as H4T S.r.l.) was one of the Group's five largest customers of which Mr. Ngok Yan Yu, a controlling shareholder and the chairman of the Company, is the 100% ultimate beneficial owner.

Purchase from the Group's five largest suppliers together represented less than 30% of the Group's total purchases during the year.

Save as the aforesaid, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, owned more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's article of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 18 to 25 of this annual report.

AUDITORS

The consolidated financial statements for the year ended 31 December 2008 have been audited by Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Mr. Ngok Yan Yu
Chairman

Hong Kong, 3 April 2009

independent auditor's report

Deloitte.
德勤

TO THE MEMBERS OF HEMBLY INTERNATIONAL HOLDINGS LIMITED
恒寶利國際控股有限公司
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Hembly International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 47 to 119, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
3 April 2009

consolidated income statement

FOR THE YEAR ENDED 31 DECEMBER 2008

	NOTES	2008 HK$'000	2007 HK$'000
Revenue	7	**1,356,445**	1,036,956
Cost of sales		**(991,305)**	(697,206)
Gross profit		**365,140**	339,750
Fair value change of an investment property	18	**(3,371)**	13,249
Discount on acquisition of additional interest in a subsidiary		**4,922**	–
Other income	9	**20,545**	15,095
Administrative expenses		**(150,042)**	(134,107)
Distribution and selling costs		**(133,389)**	(63,518)
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	**(58,207)**	(40,517)
Profit before tax	11	**15,775**	129,952
Income tax expense	12	**(14,301)**	(21,828)
Profit for the year		**1,474**	108,124
Attributable to:			
Equity holders of the Company		**7,798**	107,747
Minority interests		**(6,324)**	377
		1,474	108,124
Dividends recognised as distribution during the year	15	**28,303**	26,236
Earnings per share	16		
Basic		**HK2.76 cents**	HK40.32 cents
Diluted		**HK1.31 cents**	HK39.93 cents

consolidated balance sheet

AT 31 DECEMBER 2008

	NOTES	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	17	**323,432**	230,983
Investment property	18	**29,885**	71,505
Intangible assets	19	**12,177**	10,186
Goodwill	20	**–**	20,800
Prepaid lease payments	22	**66,044**	64,911
Loan to a jointly controlled entity	24	**–**	5,168
Available-for-sale investments	25	**575**	2,870
Financial assets at fair value through profit or loss	39	**5,968**	–
Deferred tax assets	38	**626**	287
		438,707	406,710
Current assets			
Inventories	26	**291,844**	178,559
Trade receivables	27	**402,210**	243,759
Deposits, prepayments and other receivables		**59,999**	109,058
Prepaid lease payments	22	**1,497**	1,389
Loans to jointly controlled entities	24	**–**	8,273
Amount due from a minority shareholder	28	**–**	6,689
Amount due from a related company	29	**99,171**	174,388
Amounts due from jointly controlled entities	30	**12,417**	6,609
Amount due from a former jointly controlled entity	30	**918**	–
Available-for-sale investments	25	**3,021**	3,174
Pledged bank deposits	31	**41,719**	48,099
Bank deposits with original maturity of more than three months	31	**218,391**	313,767
Bank balances and cash	31	**48,969**	112,223
		1,180,156	1,205,987
Assets classified as held for sale	32	**25,380**	41,530
		1,205,536	1,247,517
Current liabilities			
Trade payables	33	**148,592**	131,260
Other payables and accruals		**77,609**	84,736
Deposit received for disposal of a subsidiary	53	**80,000**	–
Loans from joint venturers of jointly controlled entities	34	**–**	13,441
Amounts due to joint venturers of jointly controlled entities	30	**9,155**	17,097
Amounts due to jointly controlled entities	30	**20,028**	5,812
Taxation payable		**32,894**	26,064
Obligations under finance leases - due within one year	35	**798**	910
Bank borrowings - due within one year	36	**345,932**	426,009
Bank overdrafts	36	**26,073**	607
		741,081	705,936

consolidated balance sheet

AT 31 DECEMBER 2008

	NOTES	2008 HK$'000	2007 HK$'000
Liabilities associated with assets classified as held for sale	32	**25,113**	13,080
		766,194	719,016
Net current assets		**439,342**	528,501
Total assets less current liabilities		**878,049**	935,211
Non-current liabilities			
Obligations under finance leases – due after one year	35	**1,219**	2,019
Bank borrowings – due after one year	36	**206,627**	257,128
Convertible redeemable preference shares	37	**79,292**	68,071
Conversion option derivative liability	37	**2,149**	22,022
Deferred tax liabilities	38	**6,492**	3,411
		295,779	352,651
		582,270	582,560
Capital and reserves			
Share capital	40	**28,303**	28,283
Reserves		**562,843**	546,624
Equity attributable to equity holders of the Company		**591,146**	574,907
Minority interests		**(8,876)**	7,653
		582,270	582,560

The consolidated financial statements on pages 47 to 119 were approved and authorised for issue by the board of directors on 3 April 2009 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

consolidated statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2008

	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
At 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	28,283	210,685	2,015	10,931	38,744	2,505	30,052	508	–	251,184	574,907	7,653	582,560
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 controlled entity to a subsidiary 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)

consolidated statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2008

	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
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 refer 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 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 Holdings Limited 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 statement

FOR THE YEAR ENDED 31 DECEMBER 2008

	NOTE	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES			
Profit before tax		**15,775**	129,952
Adjustments for:			
Discount on acquisition of additional interest in a subsidiary		**(4,922)**	–
Depreciation of property, plant and equipment		**29,218**	15,007
Amortisation of prepaid lease payments		**1,463**	1,278
Share-based payment expense		**2,789**	4,141
Interest expense on convertible redeemable preference shares		**11,221**	–
Interest expense		**46,986**	40,517
Interest income		**(7,916)**	(7,853)
Gain on disposal of a jointly controlled entity	42	**(15,134)**	–
Impairment loss recognised in respect of trade receivables		**1,234**	3,226
Reversal of impairment loss on loan to a jointly controlled entity		**–**	(677)
Allowance for inventories		**317**	1,675
Gain on disposal of available-for-sale investments		**(168)**	(278)
Change in fair value of financial assets at through profit and loss		**194**	–
Loss on disposal of property, plant and equipment		**1,443**	1,061
Amortisation of intangible assets		**2,409**	631
Change in fair value of an investment property		**3,371**	(13,249)
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		**133,237**	175,431
Increase in inventories		**(112,850)**	(66,209)
Increase in trade receivables		**(150,108)**	(56,049)
Decrease (increase) in deposits, prepayments and other receivables		**48,673**	(48,318)
Increase in amounts due from jointly controlled entities		**(6,601)**	–
Decrease in amount due from a minority shareholder		**–**	1,300
Decrease (increase) in amount due from a related company		**75,217**	(174,388)
Increase in trade payables		**15,792**	69,648
Increase in other payables and accruals		**17,329**	25,726
Increase in amounts due to joint venturers of jointly controlled entities		**12,919**	10,415
Increase in amount due to a jointly controlled entity		**22,205**	5,812
Cash from (used in) operations		**55,813**	(56,632)
Hong Kong Profits Tax (paid) refund		**(9)**	1,472
Tax paid for other jurisdictions		**(6,361)**	(3,446)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**49,443**	(58,606)

consolidated cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 2008

	NOTES	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(92,560)**	(57,527)
Purchase of available-for-sale investments		**(805)**	–
Acquisition of additional interest in a subsidiary		**–**	(20,800)
Acquisition of additional interest in a former jointly controlled entity	41	**(7,042)**	–
Purchase of investment property		**–**	(56,181)
Purchase of intangible assets		**(4,789)**	(10,817)
Purchase of financial assets at fair value through profit and loss		**(6,162)**	–
Increase in prepaid lease payments		**(36)**	(2,818)
Increase in amounts due from jointly controlled entities		**–**	(497)
Deposit received for disposal of a subsidiary		**80,000**	–
Decrease (increase) in bank deposits with original maturity of more than three months		**71,212**	(163,767)
Interest received		**7,916**	7,853
Proceeds on disposal of property, plant and equipment		**3,176**	159
Decrease in pledged bank deposits		**6,342**	9,363
Repayment from (loans to) jointly controlled entities		**12,046**	(2,000)
Disposal of a jointly controlled entity	42	**5,193**	–
Proceeds on disposal of available-for-sale investments		**3,208**	2,238
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**77,699**	(294,794)
FINANCING ACTIVITIES			
Repayment of bank borrowings		**(2,364,804)**	(1,761,726)
Interest paid		**(46,986)**	(40,517)
Dividend paid		**(28,303)**	(26,236)
(Repayment of) loans from joint venturers of jointly controlled entities		**(14,836)**	2,000
Repayment of obligations under finance leases		**(913)**	(329)
New bank borrowings raised		**2,215,210**	2,047,297
Additional capital contribution from minority interest of a subsidiary		**6,689**	–
Issuance of convertible redeemable preference shares		**–**	90,859
Proceeds from issue of ordinary shares		**580**	118,812
Share issuance expenses		**–**	(3,153)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(233,363)**	427,007

consolidated cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 HK$'000	2007 HK$'000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(106,221)**	73,607
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**20,984**	7,103
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**111,616**	30,906
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**26,379**	111,616
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**48,969**	112,223
Bank overdrafts	**(26,073)**	(607)
Cash and cash equivalents included in a disposal group held for sale	**3,483**	–
	26,379	111,616

notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2008

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 disclosed in the "Corporate Information" section to the annual report.

The principal activities of the Company and its subsidiaries (hereinafter collectively referred as the "Group") are the manufacture and sales of apparel and accessories, and distribution and retailing of apparel and footwear.

The consolidated financial statements are 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")

In the current year, the Group has applied the following amendments to Hong Kong Accounting Standards ("HKAS") and interpretations ("HK(IFRIC) – Int") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on the results or financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been recognised.

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

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

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 Combination[3]
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segment[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	Transfers of Assets from Customers[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 consolidated financial statements have 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 consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

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 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 consolidated financial statements.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 the 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 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%

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

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 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 consolidated financial statements 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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 consolidated financial statements, 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, available-for-sale financial assets and financial assets at fair value through profit or loss ("FVTPL").

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

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).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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, amounts 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, amounts due from minority shareholder, a related company, jointly controlled entities and a former jointly controlled entity, amount due from a related company 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

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).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 contributions 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 2008, the carrying amount of trade receivable is approximately HK$402,210,000 (2007: HK$243,759,000).

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 from prior year.

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 associates 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

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

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 party, trade payables, other payables, deposit received for disposal of a subsidiary, loans from 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. Approximately 60% (2007: 75%) of the sales of the Group are denominated in currencies other than functional currencies of the group entity making the sale, whilst almost 35% (2007: 37%) costs are denominated in currencies other than the group entity's functional currencies. 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.

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk (continued)

Currency risk (continued)

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

	2008 HK$'000	2007 HK$'000
Assets		
Renminbi	**–**	4,517
Euro	**4,311**	472
Liabilities		
Renminbi	**32**	12,553
Euro	**18,789**	3,559
USD	**272,758**	130,769

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% (2007: 7%) increase and decrease in Renminbi and Euro against Hong Kong Dollars. 7% (2007: 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% (2007: 7%) change in foreign currency rate. A negative number below indicates a decrease in profit of the Group where Renminbi and Euro strengthen 7% (2007: 7%) against Hong Kong Dollars. For a 7% (2007: 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**	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Profit for the year (i)	**(2)**	(562)	**(1,013)**	(105)

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

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk (continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to loan to a jointly controlled entity, fixed-rate loans from joint venturers of jointly controlled entities, pledged bank deposits, 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 ("HK$") 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 the balance sheet date. For variable-rate bank borrowings and bank balances, the analysis is prepared assuming that 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 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$1,721,000 (2007: HK$2,928,000).

Other price risk

The Group is exposed to equity price risk through its 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.

If the fair value of the respective funds in available-for-sale investments had been 5% (2007: 5%) higher/lower, investment valuation reserve would increase/decrease by approximately HK$151,000 (2007: increase/decrease by approximately HK$302,000) for the Group as a result of the change in fair value of available-for-sale investments.

6. FINANCIAL INSTRUMENTS *(continued)*

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

Other price risk (continued)

Sensitivity analysis (continued)

If the prices of the respective financial assets at FVTPL had been 5% higher/lower, profit for the year 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 2007.

If the volatility used in the binomial model for calculating the fair value of the conversion option derivative liability had been 5% (2007: 5%) higher/lower and all other variables were held constant, profit for the year of the Group would increase/decrease by approximately HK$549,000 and HK$494,000, respectively (2007: HK$1,515,000 and HK$1,475,000) 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 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 (2007: 5) customers accounted for a total of 53% (2007: 45%) of the Group's trade receivables as at 31 December 2008 and 2007, 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 75% and 25%, respectively, (2007: 55% and 45%, respectively) of the total trade receivable as at 31 December 2008.

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 HK$99,171,000 as at 31 December 2008 (2007: HK$174,388,000). 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.

6. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk

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

Liquidity and interest risk tables

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

	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
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 join 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

6. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk (continued)

Liquidity and interest risk tables (continued)

	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
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

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.

6. FINANCIAL INSTRUMENTS *(continued)*

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 consolidated financial statements 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.

	2008 **HK$'000**	2007 HK$'000
Manufacture and sales of apparel and accessories	**1,094,892**	913,424
Distribution and retailing of apparel and footwear	**261,553**	123,532
	1,356,445	1,036,956

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two (2007: two) operating divisions – manufacture and sales of apparel and accessories and distribution and retailing of apparel and footwear. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Year ended 31 December 2008

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

	Manufacture and sales of apparel and accessories HK$'000	Distribution and retailing of apparel and footwear HK$'000	Eliminations HK$'000	Consolidated HK$'000
RESULT				
Segment result	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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

Year ended 31 December 2008 *(continued)*

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	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 HK$'000	Distribution and retailing of apparel and footwear HK$'000	Unallocated HK$'000	Consolidated HK$'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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

Year ended 31 December 2007

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

Inter-segment sales are charged at prevailing market rates.

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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

Year ended 31 December 2007 *(continued)*

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 assets	–	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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Geographical segments

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

	2008	2007
	HK$'000	HK$'000
Europe	**657,982**	722,370
The PRC, excluding Hong Kong	**645,737**	270,699
Others	**52,726**	43,887
	1,356,445	1,036,956

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

	Carrying amount of segment assets As at 31 December		**Addition to property, plant and equipment, intangible assets and prepaid lease payments Year ended 31 December**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**970,702**	653,889	**67,269**	68,674
Hong Kong	**178,452**	188,624	**29,627**	4,779
Macau	**63,486**	165,793	**41**	42
Europe	**78,789**	38,966	**4,903**	1
	1,291,429	1,047,272	**101,840**	73,496

notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2008

9. OTHER INCOME

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

10. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest on:		
Bank borrowings and overdrafts wholly repayable		
– within five years	**46,550**	40,012
Convertible redeemable preference shares	**11,221**	–
Obligations under finance leases	**136**	134
Loans from joint venturers of jointly controlled entities	**300**	371
	58,207	40,517

11. PROFIT BEFORE TAX

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

12. INCOME TAX EXPENSE

	2008 HK$'000	2007 HK$'000
Current tax:		
Hong Kong	**20**	16
Other jurisdictions	**13,512**	18,755
	13,532	18,771
(Over)under provision in prior years:		
Hong Kong	**(12)**	94
Other jurisdictions	**(1,137)**	(72)
	(1,149)	22
Deferred tax: (Note 38)		
Current year	**1,918**	3,035
	14,301	21,828

12. INCOME TAX EXPENSE *(continued)*

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates 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 to 25% from 1 January 2008 onwards (2007: preferential tax rate of 24%).

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 years ended 31 December 2008 and 2007, respectively.

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

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

Note: Majority of the operation of the Group is operated by its PRC subsidiaries which entitle to tax rate of 25% (2007: preferential tax rate of 24%).

13. DIRECTORS' EMOLUMENTS

	Ngok Yan Yu HK$'000	Tang Chui Yi, Janny HK$'000	Wong Ming Yeung HK$'000	Tang Wai Ha HK$'000 (note b)	Marcello Appella HK$'000	Antonio Piva HK$'000	Lam Hon Keung, Keith HK$'000	Je Kin Ming HK$'000	Lo Ming Chi, Charles HK$'000	Pao Ping Wing HK$'000	Kwan Hung Sang, Francis HK$'000	Total 2008 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
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

Note:

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

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

13. DIRECTORS' EMOLUMENTS *(continued)*

No director waived or agreed to waive any emoluments for the years ended 31 December 2008 and 2007. 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, 1,800,000 share options (2007: 5,750,000) 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 (2007: 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 2008 (2007: one) is as follows:

	2008 **HK$'000**	2007 HK$'000
Salaries and other benefits	**1,440**	1,321
Retirement benefits scheme contributions	**12**	12
Share-based compensation	**10**	–
	1,462	1,333

No employees waived or agreed to waive any emoluments for the years ended 31 December 2008 and 2007. 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

	2008 **HK$'000**	2007 HK$'000
Dividend recognised as distribution during the year:		
Interim dividend of HK3 cents per share (2007: HK3 cents)	**8,491**	8,479
2007 final dividend of HK7 cents per share (2007: 2006 final dividend HK7 cents)	**19,812**	17,757
	28,303	26,236

The directors do not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: final dividend HK7 cents).

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

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

	Number of shares 2008 '000 (Note)	 2007 '000 (Note)
Weighted average number of ordinary shares for the purpose of basic earnings per share	**283,026**	267,204
Effect of dilutive potential ordinary shares for share options	**9**	1,717
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**283,035**	268,921

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 2008 and 2007.

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 (as detailed in note 53(b)) 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 2007	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
DEPRECIATION AND IMPAIRMENT							
At 1 January 2007	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 2008	188,231	65,217	17,348	17,826	29,522	5,288	323,432
At 31 December 2007	145,945	24,266	10,715	17,557	24,949	7,551	230,983

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

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

The carrying values of motor vehicles include an amount of approximately HK$2,065,000 (2007: HK$3,024,000) in respect of assets held under finance leases. Also, the carrying values of furniture, fixtures and equipment include an amount of approximately HK$32,000 (2007: HK$93,000) in respect of assets held under finance leases. Impairment loss on property, plant and equipment recognised during the year is detailed in note 21.

18. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
At 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
Transfers 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 2008 and 2007 has been arrived at on the basis of a valuation carried out on that date by GA Appraisal Limited and Asset Appraisal Limited, respectively. Both valuers, which are members of the Hong Kong Institute of Surveyors 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 HK$'000	Trademarks HK$'000	Total HK$'000
COST			
At 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 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 2008	7,744	4,433	12,177
At 31 December 2007	10,186	–	10,186

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.

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.

As detailed in note 53 (b), 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

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

On 28 April 2008, the Group acquired additional 50% equity interest in STF (China) Limited ("STF"), previously a jointly controlled entity of the Group which became a 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.

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.

Impairment loss of HK$36,862,000 (2007: Nil) recognised during the year ended 31 December 2008 is detailed in note 21.

21. IMPAIRMENT TEST ON GOODWILL/INTANGIBLE ASSETS/PROPERTY, PLANT AND EQUIPMENT/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 in prior year 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.

21. IMPAIRMENT TEST ON GOODWILL/INTANGIBLE ASSETS/PROPERTY, PLANT AND EQUIPMENT/PREPAID LEASE PAYMENTS *(continued)*

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 note 53 (b), 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

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

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 is detailed in note 21.

23. INTERESTS IN JOINTLY CONTROLLED ENTITIES

As at 31 December 2008 and 2007, 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 Company		Principal activity
			2008	2007	
STF	Hong Kong	Ordinary Shares (note 1)	–	46.7%	Investment holding
STF (Nanjing) Garment Company Limited	PRC	Registered capital (note 2)	–	46.7%	Sourcing, distribution of apparel and footwear
STF (Shanghai) Company Limited	PRC	Registered capital (note 2)	–	46.7%	Sourcing, distribution of apparel and footwear
Shanghai Sisley Trading Co. Limited	PRC	Registered capital	–	46.7%	Sourcing, distribution of apparel and footwear
M.T.T. Yangzhou Garment Co. Limited	PRC	Registered capital	–	50.0%	Garment manufacturing and trading
Lotto China Limited ("Lotto")	Hong Kong	Ordinary Shares (note 3)	–	46.7%	Investment holding
Lotto (Nanjing) Garment Co. Limited	PRC	Registered capital (note 4)	–	46.7%	Sourcing, distribution of apparel and footwear
Lotto (Shanghai) Company Limited	PRC	Registered capital (note 4)	–	46.7%	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 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 venturer of Lotto in July 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.

23. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

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:

	2008 HK$'000	2007 HK$'000
Current assets	**59,117**	88,217
Non-current assets	**5,428**	15,539
Current liabilities	**38,669**	92,629
Non-current liabilities	**22,414**	12,345
Income	**63,869**	87,724
Expenses	**(73,527)**	(88,930)

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

Loan to a jointly controlled entity under non-current assets as at 31 December 2007 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% equity interest in 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 year ended 31 December 2008.

Loans to jointly controlled entities under current assets as at 31 December 2007 included an amount of HK$2,250,000 which is unsecured, interest bearing at 5% per annum and repayable within one year. The remaining balances are unsecured and non-interest bearing and repayable within one year.

25. AVAILABLE-FOR-SALE INVESTMENTS

	2008 HK$'000	2007 HK$'000
Unlisted securities		
– Funds in Hong Kong (note a)	**2,791**	6,044
– Fund in the PRC (note b)	**230**	–
– Equity securities in the PRC (note c)	**575**	–
	3,596	6,044
Analysed for reporting purpose as:		
Non-current asset	**575**	2,870
Current asset	**3,021**	3,174
	3,596	6,044

25. AVAILABLE-FOR-SALE INVESTMENTS *(continued)*

Notes:

(a) The Funds represents Hang Seng 108% Capital Guaranteed HK Equity Fund (2007: Hang Seng 100% and 108% Capital Guaranteed HK Equity Fund). The potential return of the investments 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, which 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

	2008 **HK$'000**	2007 HK$'000
Raw materials	**155,898**	20,119
Work in progress	**75,385**	133,538
Finished goods	**70,316**	24,902
	301,599	178,559
Less: Reclassified to assets held for sale	**(9,755)**	–
	291,844	178,559

27. TRADE RECEIVABLES

	2008 **HK$'000**	2007 HK$'000
Trade receivables	**409,337**	247,156
Less: allowance for doubtful debts	**(4,585)**	(3,397)
	404,752	243,759
Less: Reclassified to held for sale	**(2,542)**	–
	402,210	243,759

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

27. TRADE RECEIVABLES *(continued)*

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

	2008 HK$'000	2007 HK$'000
0 – 90 days	**337,606**	223,661
91 – 180 days	**56,551**	8,810
181 – 360 days	**9,307**	9,834
Over 360 days	**1,288**	1,454
	404,752	243,759

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$50,950,000 (2007: HK$31,545,000) which are past due at 31 December 2008 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

	2008 HK$'000	2007 HK$'000
0-90 days	**23,067**	11,447
91-180 days	**17,288**	8,810
181-360 days	**9,307**	9,834
Over 360 days	**1,288**	1,454
Total	**50,950**	31,545

Movement in the allowance for doubtful debts

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

28. AMOUNT DUE FROM A MINORITY SHAREHOLDER

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

Name of related company	**2008** **HK$'000**	2007 HK$'000
Sergio Tacchini International S.P.A. (formerly known as H4T S.r.l.) (Note)	**99,171**	174,388

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

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

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

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

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

29. AMOUNT DUE FROM A RELATED COMPANY *(continued)*

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

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

30. AMOUNTS DUE FROM (TO) JOINTLY CONTROLLED ENTITIES/AMOUNTS DUE TO JOINT VENTURERS OF JOINTLY CONTROLLED ENTITIES AND AMOUNT 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 1.22% (2007: 2.6%) per annum for the year ended 31 December 2008. Bank deposits with original maturity of more than three months carry interest at market rates which range from 2.3% to 3.5% (2007: 3.3% to 3.7%) per annum. The bank balances carry interest at market rates which range from 0.01% to 0.7% (2007: 1.0% to 2.0%) per annum.

The Group has bank balances and deposits of approximately HK$255,492,000 (2007: HK$378,560,008) 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

On 31 December 2008, the Board of Directors decided to dispose of one of the Group's jointly controlled entity, Benlim Limited ("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
Amount 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 sales agreement with the joint venture of Benlim in 2009. The disposal became effective on 1 January 2009.

32. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES ASSOCIATES WITH ASSETS CLASSIFIED AS HELD FOR SALE *(continued)*

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 million). 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.

33. TRADE PAYABLES

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

	2008 HK$'000	2007 HK$'000
0 – 90 days	**104,953**	111,138
91 – 180 days	**27,364**	15,138
181 – 360 days	**11,603**	4,446
Over 360 days	**4,980**	538
	148,900	131,260
Less: Reclassified to liabilities associated with assets classified as held for sale	**(308)**	–
	148,592	131,260

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

34. LOANS FROM JOINT VENTURERS OF JOINTLY CONTROLLED ENTITIES

At 31 December 2007, loans from joint venturers of jointly controlled entities included an amount of HK$7,418,000 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		Present value of minimum lease payments	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**891**	1,048	**798**	910
More than one year, but not exceeding two years	**761**	891	**713**	798
More than two years, but not exceeding three years	**516**	761	**506**	713
More than three years, but not exceeding four years	**–**	516	**–**	508
	2,168	3,216	**2,017**	2,929
Less: Future finance charges	**(151)**	(287)	**–**	–
Present value of lease obligations	**2,017**	2,929	**2,017**	2,929
Less: Amounts due for settlement within one year shown under current liabilities			**(798)**	(910)
Amounts due for settlement after one year			**1,219**	2,019

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 2008, the average effective borrowing rates were 3.2% (2007: 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 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.

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 transferable term loan facility, beared interest at HIBOR plus 1.55% per annum and was 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.

36. BANK BORROWINGS *(continued)*

	2008 HK$'000	2007 HK$'000
Bank borrowings	**552,559**	683,137
Bank overdrafts	**26,073**	607
	578,632	683,744
Analysed as:		
Secured	**381,977**	387,134
Unsecured	**196,655**	296,610
	578,632	683,744
Carrying amount repayable:		
Within one year	**345,932**	426,009
More than one year, but not exceeding two years	**206,627**	172,724
More than two years, but not exceeding three years	**–**	82,748
More than three years, but not exceeding four years	**–**	909
More than four years, but not exceeding five years	**–**	747
	552,559	683,137
Less: Amounts due within one year shown under current liabilities	**(345,932)**	(426,009)
Amounts due after one year shown under non-current liabilities	**206,627**	257,128

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.

The exposure of the Group's fixed-rate borrowings amounting to approximately HK$208,307,000 (2007: HK$48,206,000). The contractual maturity dates are more than one year, but not exceeding two years for borrowings at 31 December 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.

36. BANK BORROWINGS *(continued)*

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

	2008	2007
Effective interest rate		
Fixed-rate borrowings	**6.5% to 8.5%**	5.7%
Variable-rate borrowings	**3.0% to 6.0%**	5.0% to 8.0%

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

	2008 HK$'000	2007 HK$'000
Denominated		
– RMB	**–**	7,177
– USD	**151,783**	130,769
– Euro	**5,803**	1,584

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.

The convertible redeemable preference shares contain two components, liability component of approximately HK$79,292,000 (2007: HK$68,071,000) and convertible option derivative of approximately HK$2,149,000 (2007: HK$22,022,000). The relevant transaction cost for the issuance of the convertible redeemable preference shares of approximately HK$766,000 are included in the liability component. 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 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:

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

The volatility used was based on the 400 days (2007: 250 days) volatility of comparable companies price return.

38. DEFERRED TAXATION

The following are the deferred tax (liabilities) assets recognised by the Group and movements thereon during the current and prior years:

	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 and jointly controlled entities HK$'000	Total HK$'000
At 1 January 2007	(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:

	2008 HK$'000	2007 HK$'000
Deferred tax assets	**626**	287
Deferred tax liabilities	**(6,492)**	(3,411)
	(5,866)	(3,124)

38. DEFERRED TAXATION *(continued)*

The Group has unused tax loss of approximately HK$110,213,000 (2007: HK$99,741,000) available for offset against future profits. A deferred tax asset has been recognised in respect of tax losses of approximately HK$6,501,000 (2007: HK$5,203,000). No deferred tax asset has been recognised in respect of the remaining tax loss of HK$103,712,000 (2007: HK$94,538,000) due to the unpredictability of future profit streams of the relevant subsidiaries. The unrecognised tax losses will be expired in:

	2008 HK$'000	2007 HK$'000
2011	**5,439**	5,439
2012	**10,181**	15,032
2013	**20,265**	–
	35,885	20,471

All other remaining tax losses may be carried forward indefinitely.

39. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008 Non-current Assets HK$'000	2007 Non-current Assets HK$'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 31 December 2007 and 31 December 2008	2,000,000,000	200,000
Issued and fully paid:		
At 1 January 2007	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 year ended 31 December 2008 and 2007:

(a) 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.

(b) 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.

(c) 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 28 April 2008, the Group acquired remaining 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 HK$'000	**Fair value adjustments** HK$'000	**Fair value** 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.

41. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY/FORMER JOINTLY CONTROLLED ENTITY *(continued)*

If the acquisition had been completed on 1 January 2008, total group revenue for the year 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.

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.

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

42. DISPOSAL OF A JOINTLY CONTROLLED ENTITY *(continued)*

The jointly controlled entity disposed of during the year 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

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 year ended 31 December 2007, which was fully settled during the year.

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

During the year ended 31 December 2007, 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$2,334,000.

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.

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

45. OPERATING LEASE COMMITMENT

The Group as lessee

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

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:

	2008 **HK$'000**	2007 HK$'000
Within one year	**30,842**	12,822
In the second to fifth years	**22,195**	13,405
	53,037	26,227

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 year was HK$572,000 (2007: HK$Nil) which included in other income. All of the Group's investment properties are held for rental purposes. They are expected to generate rental yields of 2.1% on an ongoing basis. All of the properties held have committed tenants for the next 2 years.

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

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

46. COMMITMENTS

	2008 HK$'000	2007 HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**8,896**	59,565

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

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 up 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.

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.

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 costs respect to the retirement benefit schemes is to make the specified contributions.

48. RETIREMENT BENEFITS SCHEME *(continued)*

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 year, the pension scheme contributions made by the Group were approximately HK$7,504,000 (2007: HK$4,805,000).

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 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 14,850,000 (2007: 7,150,000), representing 5.2% (2007: 2.5%) 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.

49. SHARE OPTION SCHEME *(continued)*

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

49. SHARE OPTION SCHEME *(continued)*

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

Share options grant date	**Outstanding at 1.1.2008**	**Granted during year**	**Exercised during year**	**Outstanding at 31.12.2008**
14.9.2006	3,950,000	–	–	3,950,000
7.5.2007	1,200,000	–	(200,000)	1,000,000
9.10.2007	2,000,000	–	–	2,000,000
18.8.2008	–	1,800,000	–	1,800,000
11.11.2008	–	6,100,000	–	6,100,000
	7,150,000	7,900,000	(200,000)	14,850,000
Exercisable at the end of the year	3,840,000			8,415,000
Weighted average exercise price	HK$3.28	HK$0.64	HK$2.90	HK$1.89

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

Share options grant date	Outstanding at 1.1.2007	Granted during year	Exercised during year	Outstanding at 31.12.2007
13.7.2006	1,000,000	–	(1,000,000)	–
14.9.2006	4,300,000	–	(350,000)	3,950,000
7.5.2007	–	6,000,000	(4,800,000)	1,200,000
9.10.2007	–	2,000,000	–	2,000,000
	5,300,000	8,000,000	(6,150,000)	7,150,000
Exercisable at the end of the year	1,860,000			3,840,000
Weighted average exercise price	HK$2.46	HK$3.40	HK$2.72	HK$3.28

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise and the date immediately before the date of exercise is HK$4.45 (2007: HK$4.44) and HK$4.55 (2007: HK$4.53), respectively.

49. SHARE OPTION SCHEME *(continued)*

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.

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.

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 3.0%	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 year 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$2,789,000 for the year ended 31 December 2008 (2007: HK$4,141,000) in relation to share options granted by the Company.

50. RELATED PARTY TRANSACTIONS

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

Name of related party	Nature of transactions	2008 HK$'000	2007 HK$'000
Long Wise (Holdings) Limited (note 1)	Service fee paid	**247**	268
STF (note 2)	Interest income received	**124**	371
	Management fee income received	**230**	690
STF (Nanjing) Company Limited (note 2)	Rental income received	**–**	125
Sergio Tacchini International S.P.A. (note 3)	Sales of apparel	**202,037**	201,710
	Sourcing income received	**12,486**	12,167
	Management fee income received	**990**	–
Shanghai Sisley Trading Co. Limited (note 4)	Purchase of apparel	**10,542**	6,936
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) GarmentCo. Ltd. (note 6)	Sales of apparel and accessories	**–**	2,083
	Rental income received	**840**	427
Lotto (note 6)	Management fee income received	**345**	690
M.T.T. Limited (note 4)	Management fee income received	**840**	896

During the year ended 31 December 2007, 恒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% equity interest in STF during the year. 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.

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 2008 and 2007 with Sergio Tacchini International S.P.A. please refer to the circular issued by the Company on 14 November 2008 and 26 July 2007 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.

50. RELATED PARTY TRANSACTIONS *(continued)*

As at December 2007, Stonefly S.P.A., a joint venturer 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$22,000,000 granted to STF. As at 31 December 2007, the amount of such utilised by STF was approximately HK$9,800,000. During the year, STF has 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 former minority shareholder of the Company's subsidiary, 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 2008 and 2007.

51. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of key management during the year was as follows:

	2008 **HK$'000**	2007 HK$'000
Short-term benefits	**13,973**	11,341
Other long-term benefits	**48**	158
Share-based payments	**1,688**	873
	15,709	12,372

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

52. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2008 and 2007 are as follows:

Name of subsidiaries	Place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital indirectly held by the Company 2008	2007	Principal activities
Hembly Garment Manufacturing Limited	Hong Kong	Ordinary shares HK$3,000,000	**100%**	100%	Investment holding and sale of garments
Hembly (Nanjing) Garment Co., Ltd. 恒寶利(南京)服裝有限公司 (note)	PRC	Registered capital US$3,000,000	**100%**	100%	Garment manufacturing
Hembly (Nanjing) Garment Manufacturing Co., Ltd. 亨百利(南京)制衣有限公司 (note)	PRC	Registered capital US$2,100,000	**100%**	100%	Property holding and sale of garments
Hembly Garment Manufacturing Macao Commercial Offshore Limited 恒寶利製衣澳門離岸商業服務有限公司	Macau	Quota capital MOP100,000	**100%**	100%	Sale of garments
M.D.T. Sourcing (China) Limited	Hong Kong	Ordinary shares HK$780,000	**51%**	51%	Sale of garments
M.D.T. (Nanjing) Garment Manufacturing Company Limited 摩根(南京)制衣有限公司 (note)	PRC	Registered capital US$500,000	**51%**	51%	Garment manufacturing and trading
Scienward (Nanjing) Garment Co., Ltd. 欣隆(南京)服裝有限公司 (note)	PRC	Registered capital US$1,000,000	**100%**	93.33%	Garment manufacturing and sourcing of garment
Scienward International Holdings Limited	Hong Kong	Ordinary shares HK$1,000,000	**100%**	93.33%	Investment holding and distribution of apparel and footwear
Hembly (Yangzhou) Garment Manufacturing Co., Ltd. 恒寶利(揚州)制衣有限公司 (note)	PRC	Registered capital US$10,000,000	**100%**	100%	Garment manufacturing and trading
Hembly Italy S.R.L.	Italy	Ordinary shares EUR50,000	**100%**	100%	Sale of garment
Yangzhou Sunrise Garment Manufacturing Co., Ltd. (note)	PRC	Registered capital US$10,000,000	**100%**	100%	Property holding

Note: These companies are wholly foreign owned enterprises.

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

53. SUBSEQUENT EVENTS

(a) On 20 January 2009, the Board 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.

(b) 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 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 approval by the independent shareholders at a general meeting of the Company and an 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.

financial summary

	For the year ended 31 December				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
RESULTS					
Revenue	291,997	427,781	611,689	1,036,956	**1,356,445**
Profit attributable to equity holders of the Company	30,950	58,194	78,128	107,747	**7,798**
ASSETS AND LIABILITIES					
Total assets	248,243	485,432	854,807	1,654,227	**1,644,243**
Total liabilities	(191,029)	(336,478)	(509,596)	(1,071,667)	**(1,061,973)**
	57,214	148,954	345,211	582,560	**582,270**
Equity attributable to equity holders of the Company	56,870	148,298	345,190	574,907	**591,146**
Minority interests	344	656	21	7,653	**(8,876)**
	57,214	148,954	345,211	582,560	**582,270**

Notes:

(1) The Company was incorporated in the Cayman Islands on 27 May 2004 and becomes the holding company of the Group on 13 June 2006 as a result of group reorganisation (the "Group Reorganisation").

(2) The summary financial information for the year ended 31 December 2004, 2005 and 2006 have been prepared using the principles of merger accounting as if the group structure immediately after the Group Reorganisation had been in existence throughout the years concerned.

www.hembly.com
36/F., No. 1 Hung To Road, Kwun Tong, Kowloon, Hong Kong