HEMBLY

Hembly International Holdings Limited

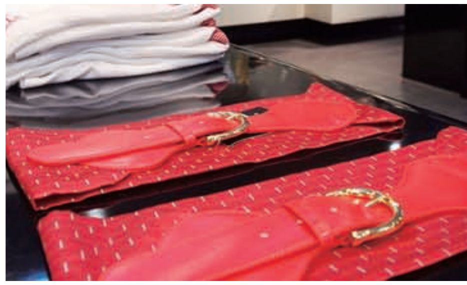
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3989

2007 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
Ms. Tang Wai Ha
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

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

JOINT COMPANY SECRETARIES

Ms. Kwan Shin Luen, Susanna
Mr. Yeung Kwong Wai

AUTHORIZED REPRESENTATIVES

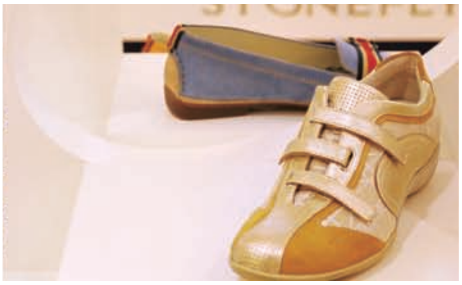
Mr. Ngok Yan Yu
Ms. Kwan Shin Luen, Susanna

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

COMPLIANCE ADVISOR

Taifook Capital Limited

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 Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P. O. Box 705
George Town
Grand Cayman
British West Indies

Branch Registrar in Hong Kong

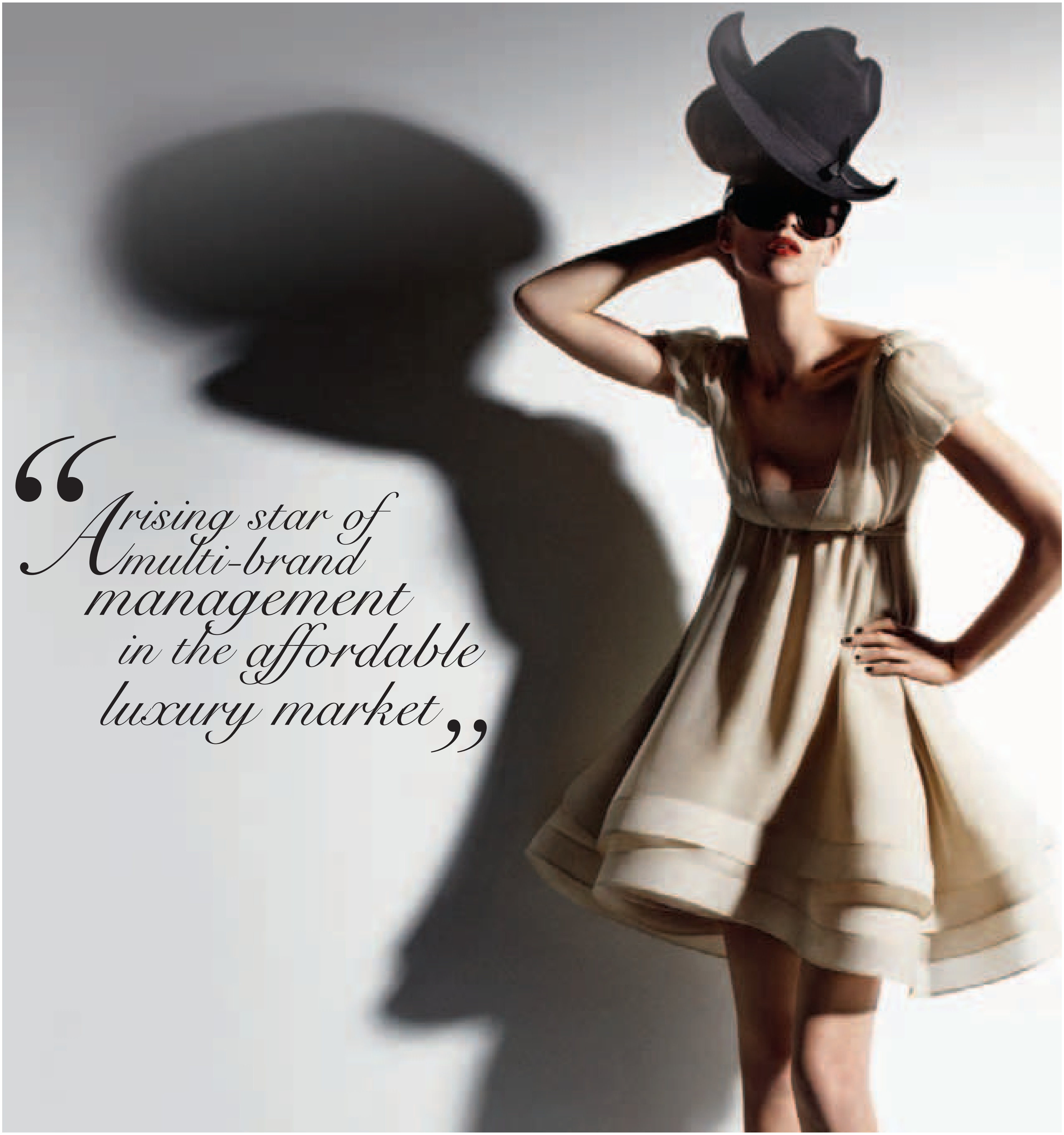
Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

CORPORATE WEBSITE

www.hembly.com

STOCK CODE

3989

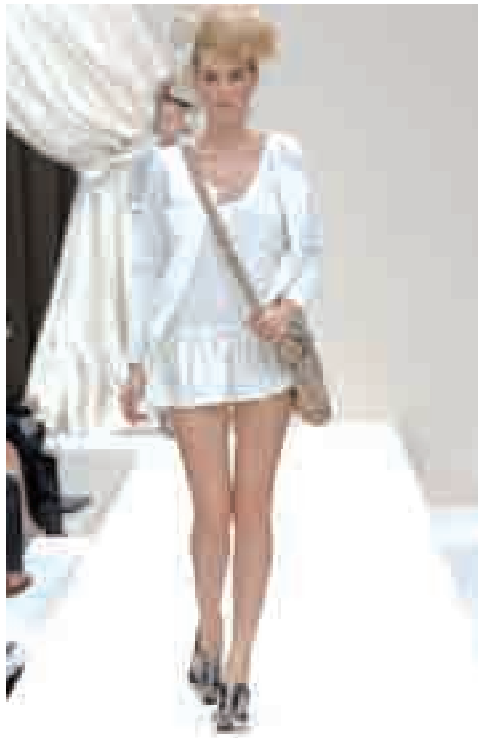

"A rising star of multi-brand management in the affordable luxury market"

chairman's statement

I am pleased to report that Hembly recorded very satisfactory results for 2007. We made exceptional progress towards becoming China's multi-brand management leader by adopting a business model that leverages on the synergy between our well-honed supply chain services and our expanding distribution and retailing businesses.

Thanks to strong and sustained innovation, the Group has developed an extremely effective multi-brand management model, supported by a dedicated and passionate multinational team. Based on this, I am confident that 2008 will be another year where we can expect to succeed against huge global competitors.

chairman's statement



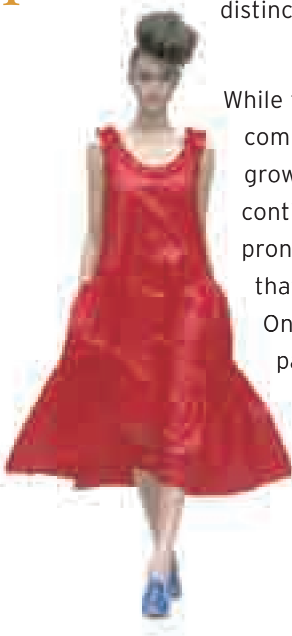
Strengthened value chain services

One key strengths of our Group, as demonstrated by our financial results consistency, is our seamless supply chain services. These comprise a comprehensive model that combines design and development, sourcing of raw materials, production management, quality assurance and logistics management. In 2007, our supply chain services continued to achieve consistent growth against the backdrop of a changing and increasingly competitive world. Hembly's strong supply chain foothold in the PRC means the Group's future growth is assured. Our prudent virtual management capability has enabled us to offer top quality supply chain services to our prominent international branded clients.

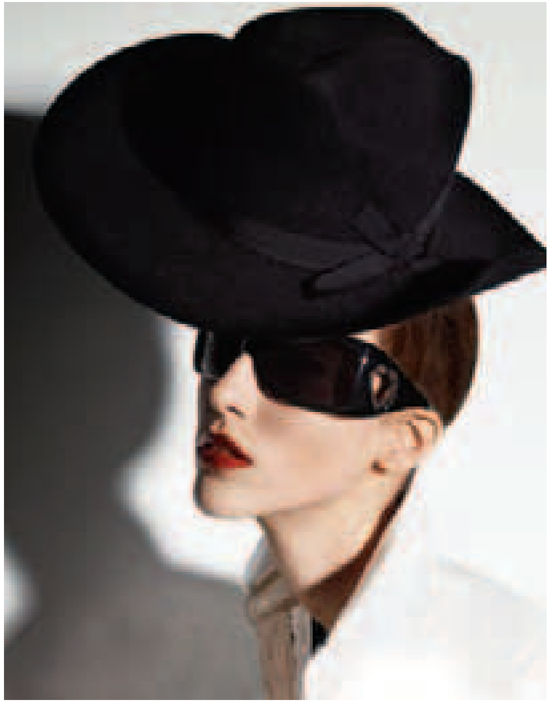
We will continue to integrate our supply chain services with our distribution and retailing businesses in order to create operational efficiencies and ensure overall cost-effectiveness. This will underpin the Group's increasing strength and growth in future.

Strong growth driven by the performance of well-established brands

The outstanding performance of Hembly's distribution and retailing businesses in 2007 is directly attributable to the stringent brand selection processes which we enforce. The Group's brand management expertise and vast local PRC sourcing network also provides our distribution and retailing businesses their distinctive edge.



While the Group remains committed to organic business growth, Hembly has also continued to pursue a two-pronged acquisition strategy that yielded exceptional results. On the one hand, the Group partnered with *Moschino* and *Sisley* to tap into China's affordable luxury market. On the other hand, the Group continued to chairman's statement



pursue brand ownership through mergers and acquisitions. This strategy saw our acquisition of the ***Bond Street*** brand, which further augments our distribution and retailing businesses in Europe.

Moschino, well known for its garments and accessories with unique styles often accented with a dash of humour, as well as its 'classico con twist' and 'classical twist', has captured the hearts of the Chinese populace. The Group was granted certain prestigious distribution rights for *Moschino* in June 2007 for 10 years within the PRC, making a strong foundation for growth.

The ***Sisley*** brand, which sets an iconic trend for the Chinese young and trendy, was also transferred from *Benetton* into our *Sisley* joint venture in August 2007. The success and growth of *Sisley* in the PRC was driven both by strong market demand and by creative brand management and marketing.

Stonefly and ***Lotto***, the base of our business over the years, have slowly and surely penetrated the China sports-inspired lifestyle apparel market. *Lotto* has always performed well for us as a well-known Italian sports brand, and in 2007 *Stonefly* achieved an about-turn, contributing to our net profit position. The Group will continue to mould these two brands into affordable luxury icons, and I believe they will continue to sustain our successful distribution and retailing arm. Going forward, the Group will focus on effective marketing strategies and improving store-in-store growth for all our brands in 2008.

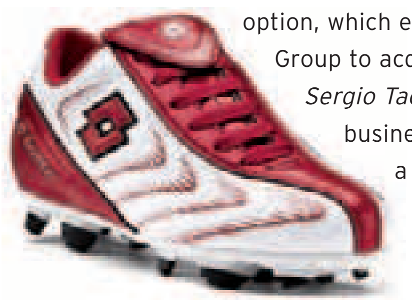
Milestones to becoming a brand owner

In 2007 we realised our vision of becoming an Italian brand owner.

Bond Street and *Bond Street Collection* are stylish prêt-a-porter collections which

chairman's statement

integrate a great range of designs and models using high-level Italian fabrics. The acquisition of *Bond Street* and *Bond Street Collection* gives the Group a golden opportunity to further synergize its retailing and distribution networks, both locally and globally.



Moreover, a March 2007 option, which entitles the Group to acquire the *Sergio Tacchini* ("*ST*") business within a period of three years, has also enhanced our vision to own a range of Italian brands. The right to exercise the option empowers the Group to globalize its retailing network. The simultaneous conclusion of a sourcing agreement, through which the Group became the exclusive sourcing agent for all *ST* products within Asia, has also broadened our revenue base for supply chain services and stimulated the Group's already growing momentum.

All in all, we see brand acquisitions as an important growth driver behind the Group's business development which will further expand our customer base and our geographical diversification within the Greater China Region and Europe.

Prospects

Despite an unfavourable business environment, including RMB appreciation and revised export tax regulations, our fully integrated, cost-effective business model will help us meet future challenges, so that we can establish our position as a leading multi-brand management operator.

Historically, the luxury and affordable luxury sectors were dominated by French and Italian players. However, Hembly will spearhead the turning of a new page in 2008. With the metamorphosis from ODM to comprehensive supply chain business and then to a one-stop brand management provider with extensive distribution and retailing experience, Hembly is progressively fulfilling its vision to become one of the first few Chinese international brand owners.

Awards and recognition

In 2007, the Group received the "2nd Capital Outstanding Enterprise Award" from Capital Magazine as well as the "Most Innovative Distributor and Retailer" award from Forbes China Magazine. These were given in recognition of our achievements in bringing international brands into China, which then successfully tapped into its burgeoning retail market.

Social commitment

The Group is committed to the betterment of society and has formed alliances with business partners and employees for various charity programs. Memorable events during the year include the Community Chest's "Walk for Millions 2007" and "Dress Special Day", to which the Group and our staff contributed significantly.

To support the development of rural areas, the Company was also the platinum sponsor of the "Wu Zhi Qiao Charity Dinner 2008", the proceeds of which were donated towards the construction of infrastructure such as bridges that will facilitate children's transport within remote China rural areas.

Acknowledgement

Realizing our vision requires a heart of innovation, cooperation and resolve. I would like to thank our Board members and our shareholders for their dedicated support and abiding confidence. I also salute our management, staff and business partners for their relentless efforts, outstanding performance and stamina, coupled with their professional attributes and attitudes. Despite fierce industry competition and conflicting market forces, I am confident our performance will continue to exceed expectations.

Mr. Ngok Yan Yu
Chairman

Hong Kong, 15 April 2008

management discussion and analysis

Business and financial review

Overview

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

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

Supply chain services

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

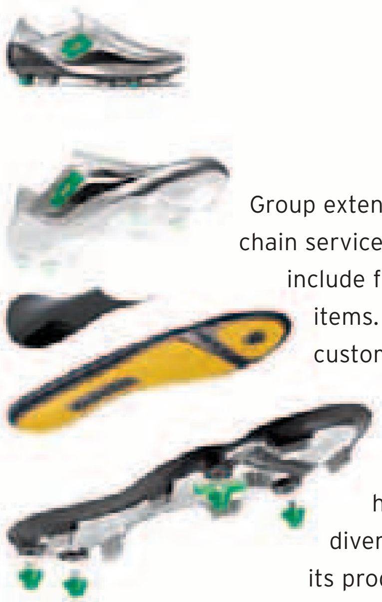
management discussion and analysis

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

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

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

Meanwhile, the new phase of the Group's Yangzhou production base began operation in February 2007. These supplementary facilities have strengthened the Group's dual operation model for production management whilst enhancing the Group's high-tech garment manufacturing techniques. To capture increased business opportunities for footwear products, the



Group extended its supply chain service capabilities to include footwear items. With full customer support, the Group was empowered to achieve horizontal diversification of its product range. These efforts will fuel the Group's supply chain services for future growth.

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

Distribution and retailing

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

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

To stimulate strong brand awareness, the Group employed aggressive branding strategies for *Lotto* during the year. This included arrangements for global

management discussion and analysis

spokesman Luca Toni, a popular Italian world-cup champion, to visit Hong Kong in May 2007. The Group will continue to devote more resources to sports sponsorship and brand promotion activities in order to capitalize on the increased popularity of sports as a result of the Beijing Olympics, whilst simultaneously aiming for sustainable growth in sales at each point-of-sale.

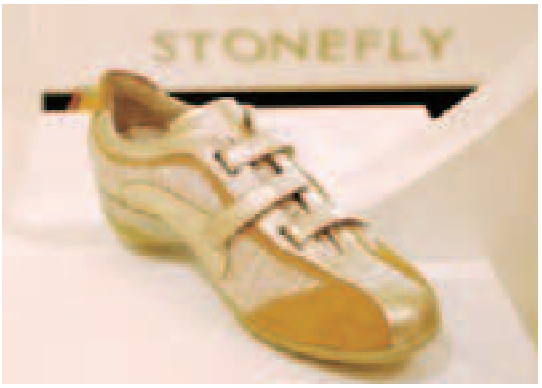
During the year, the Group continued to expand *Lotto's* sales network, with a net increase of 45 points-of-sale. As at 31 December 2007, the *Lotto* joint venture had 110 points-of-sale including 25 directly-managed shops and 85 franchised shops throughout PRC's first and second tier cities. Going forward,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

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

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

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

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



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

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

Historically, the Group had only achieved European brands' distributorship through the setting up of joint ventures. The current partnership with *Moschino*, wherein the Group is appointed *Moschino's* exclusive PRC distributor, earmarks the Group's new chapter in distribution and retailing business. This

exclusive distributorship appointment from a renowned fashion maison like *Moschino* exactly resounded the Group's acknowledged status within Europe.

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

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

To capture additional funding in face of vast expansion, especially in the distribution and retailing sector, the Group has, through restructuring, further consolidated the Group's retailing platform, and has, in December 2007, successfully invited a member of the New World group to become a strategic investor to hold a 16.77% convertible preferential shareholding within such

management discussion and analysis

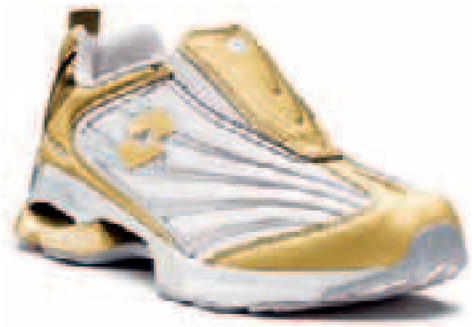
distribution and retailing platform. This raised an additional HK$90.1 million (after deducting all related expenses) for such distribution and retailing platform's working capital.

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

Operating expenses

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

The Group's administrative expenses increased by 55.2% from HK$86.4 million to HK$134.1 million. This increase is mainly attributable to its increased share option expenses and listing & compliance related costs (namely, legal and professional fees). Higher expenses in staff salaries and emoluments also contributed to the increase in administrative expenses,



since human resources have to be increased in line with the Group's sizeable expansion. Extra depreciation regarding the Group's back-up offices has also increased administrative expenses. Amidst vast expansion, the Group can better leverage on the economies of scale, which saw the Group's achievement of sizeable operational efficiency. Paired with astute expenditure management, the Group's administrative expenses, which as a percentage of revenue, decreased from 14.1% last year to 12.9% this year, earmarking the Group's improved efficiency.

Finance costs

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

Liquidity, financial resources and capital structure

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

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

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

During this year, the Group actively managed financial risks and continuously readjusted its financial position. The Group had, on 27 March 2007, obtained a three-year syndicated term loan and revolving credit facility in the amount of HK$200 million. The loan bears interest rate of 155 basis points over HIBOR. The

management discussion and analysis

syndicated term loan is repayable in installments over the three-year period. The proceeds are mainly designated as general working capital. In July 2007, the Group raised HK$99.0 million (after deducting all related expenses) via the issuance of 23,800,000 new shares at HK$4.29 each. These net proceeds are designated to back-up the Group's further acquisition opportunities and as working capital to, inter alia, enable the Group's further development and expansion of

business. As previously disclosed, the Group has through restructuring, further consolidated the Group's retailing platform by successfully invited the New World group to become a strategic investor thereby raising the additional funds of HK$90.1 million (after deducting all related expenses), which amount is classified as a long-term liability and is represented as convertible redeemable preference shares in the consolidated balance sheet.

Foreign exchange exposure

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

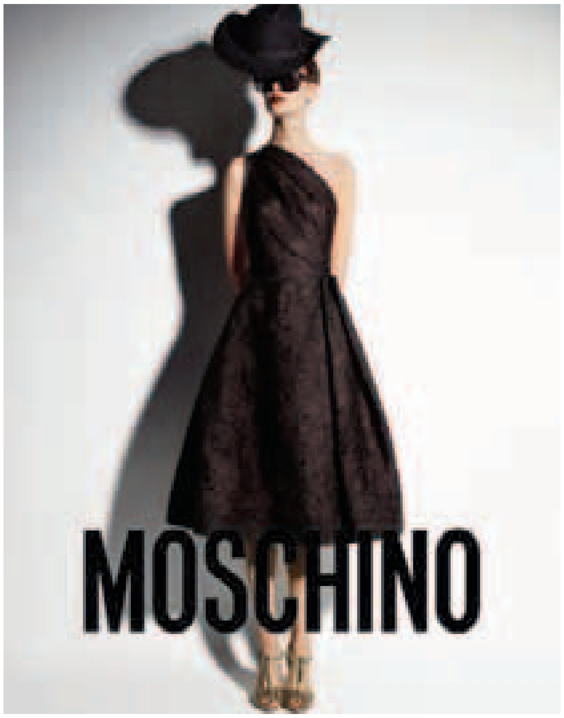
Thus, the Group will continue to be exposed to foreign currency exchange risks, although material currency fluctuation related operational impact is not anticipated to take place in future.

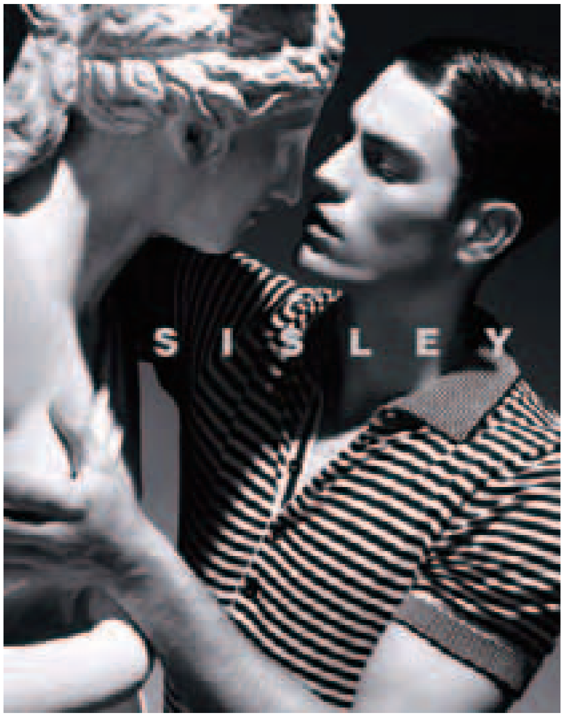
Charges on assets

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

Substantial investment

For the year ended 31 December 2007,





apart from investments in property, plant and equipment, no other substantial investment has been made by the Group. Details are in notes 17 and 18 to the consolidated financial statements.

Material acquisition/ disposal

As previously stated, the New World group became a strategic investor of the Group's distribution retailing platform in December 2007.

Capital commitment

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

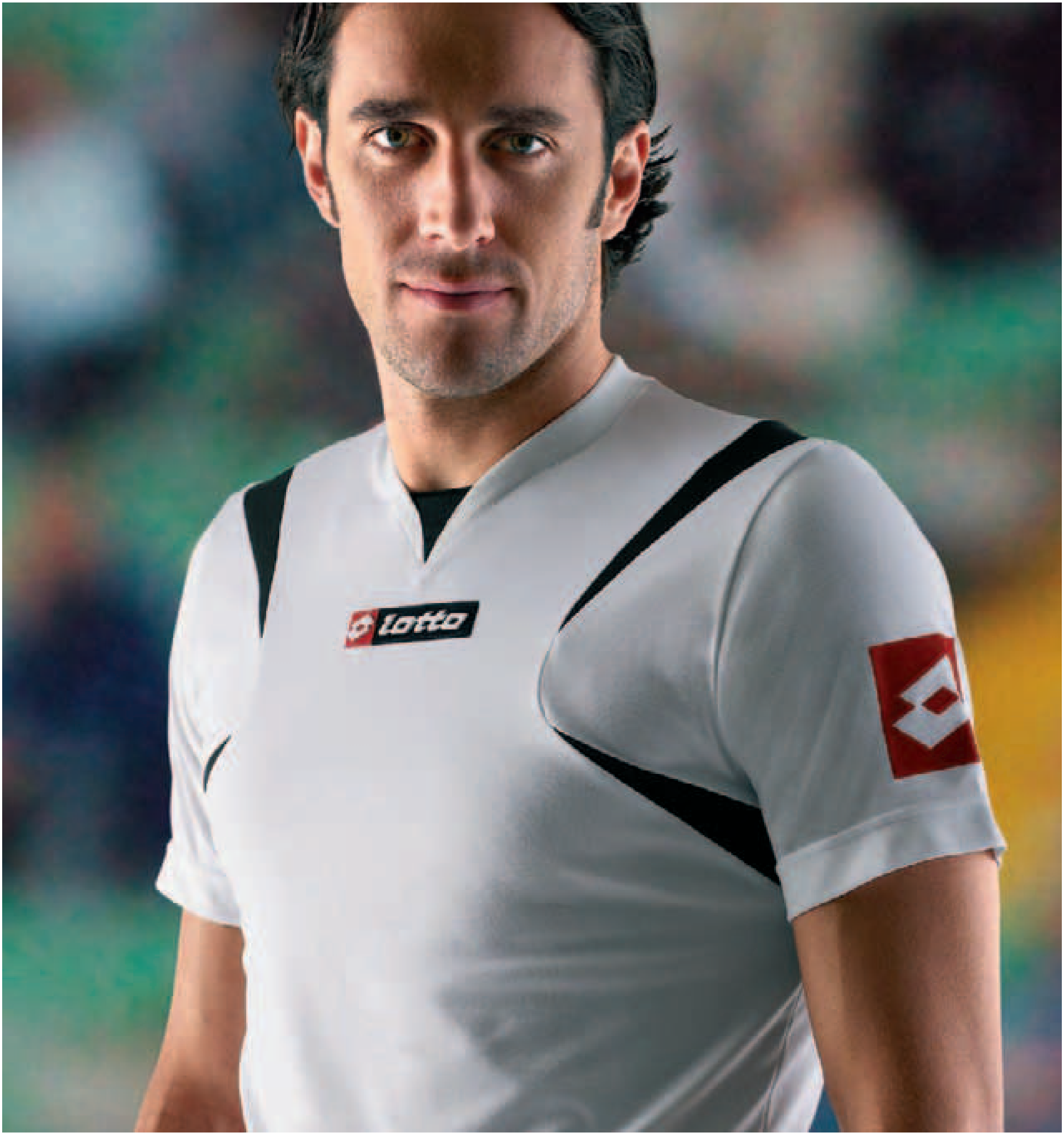
Contingent liabilities

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

Employment information

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

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

Executive Directors

Mr. Ngok Yan Yu, aged 35, is the chairman of the Company and founder of the Group. Mr. Ngok has over 11 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 PRC enterprise, 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 68, 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 as an officer of The Order of the British Empire (O.B.E.) in 1993 and is a fellow of the Hong Kong Institute of Directors and a fellow of Chartered Management Institute.

board of directors and senior management

Ms. Tang Chui Yi, Janny, aged 44, is the chief executive officer of the Company and the co-founder of the Group. Ms. Tang is responsible for the Group's day-to-day management. She has nearly 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 41, is an executive director of the Company. Mr. Wong joined the Group in June 2001 and is responsible for sales and marketing of the Group in Hong Kong. He has over 16 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 45, is an executive director of the Company and the managing director of Scienward International Holdings Limited. Ms. Tang joined the Group in September 2005 and is responsible for the overall management of the Group's distribution and retailing business. Ms. Tang previously worked for Arthur Andersen and PricewaterhouseCoopers and 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.

Mr. Marcello Appella, aged 53, is an executive director of the Company and the general manager of Hembly Europe SARL. Mr. Appella joined the Group in 2001 and is responsible for sales and marketing of the Group in France. He has over 27 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 53, was an executive director of the Company and with effect from 31 July 2007, Mr. Piva was re-designated to a non-executive director of the Company. He joined the Group in May 2005 and 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 23 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 40, was appointed as a non-executive director of the Company in June 2006. Mr. Je has over 17 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 investment banking and securities businesses 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 (Practicing) 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 58, 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 an associate member of the Financial Services Institute of Australasia. He is an independent non-executive director of Artfield Group Limited, an executive director of New Century Group Hong Kong Limited, an independent non-executive director of Tak Sing Alliance Holdings Limited, and deputy chairman & chief executive officer of Xin Corporation Limited, all of which are listed on the Stock Exchange.

board of directors and
senior management

Mr. Pao Ping Wing, JP, aged 60, 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 22 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 and Zhu Zhou CSR Times Electric Co. Ltd., all of which are listed on the Stock Exchange.

Mr. Kwan Hung Sang, Francis, aged 57, was appointed as an independent non-executive director of the Company in June 2006. Mr. Kwan has over 37 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. 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 the chairman of USP Enterprise Limited, Rise & Shine Enterprise Limited and Hope Marketing Consultant Company Limited, the former two companies engaging in the distribution of health products and the latter engaging in the sales and marketing of natural health food products. He is currently 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 59, 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 new business developments and maintaining high level industry visibility for the Group to capture new business opportunities. Mr. Orgera has 30 years of experience in corporate banking, of which he spent 14 years in Hong Kong and China. In this regard, he had developed 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. Ivano Poma, aged 43, is the managing director of Hembly Garment Manufacturing Limited. He joined the Group in May 2007 and is responsible for the Group's supply chain services and global sourcing network development. Mr. Poma has over 15 years of extensive experience in the apparel and footwear industry and licensee network coordination. He obtained a Degree in Physical Education at the University of Torino, Italy, in 1982.

board of directors and senior management

Mr. Ola Gavin, aged 46, is the managing director of Hembly Scandinavia AB. He joined the Group in May 2005 and is responsible for the sales and marketing of the Group in Sweden. Prior to joining the Group, he had assumed various positions from sales manager to managing director for Team Sportia AB and Five Seasons in Sweden from 1983 to 2005. Mr. Gavin has over 20 years of experience in the apparel industry.

Mr. Corrado Oro, aged 41, 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 21 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 44, 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 almost 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 56, 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 46, is the general manager of Hembly (Yangzhou) Garment Manufacturing Co., Ltd.. He joined the Group in February 2003 and is responsible for 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 39, 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 14 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.

board of directors and senior management

Mr. Huang Tao, aged 41, is the chief operation officer of Scienward International Holdings Limited. He joined the Group in January 2008 and is responsible for the business development of the *Lotto* brand. He has over 14 years experience in the fast moving commodity goods industry and the sportswear industry. He graduated from Wuhan University in 1989 and obtained a Bachelor Degree in Chemistry.

Mr. Xu Li Feng, aged 37, is the general manager of Lotto China Limited. He joined the Group in December 2006 and is responsible for the overall development of branding, marketing, sales and infrastructure building and product merchandising of the *Lotto* brand. Mr. Xu has 13 years of experience in consumer goods retailing and distribution business both in China and overseas. He obtained a Degree in Marketing and Information System from The University of Auckland, New Zealand in 1994.

Ms. Kwan Shin Luen, Susanna, aged 40, is the chief legal and planning officer and one of the joint company secretaries 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 15 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 34, is the financial controller of the Company. He joined the Group in July 2007 and is responsible for the finance, accounting and internal control fuctions 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 analysis of the CFA Institute and a certified financial risk manager of the Global Association of Risk Professionals.

Mr. Yeung Kwong Wai, aged 34, is assistant to the chairman and one of the joint company secretaries of the Company. He joined the Group in November 2005 and is responsible for the Group's business development and corporate governance. Mr. Yeung has over 10 years of experience in auditing and accounting. Prior to joining the Group, Mr. Yeung acted as financial controller and company secretary of a company listed on the Stock Exchange. Mr. Yeung holds a Bachelor of Commerce Degree in Accounting. He is a chartered financial analyst of the CFA Institute, a member of American Institute of Certified Public Accountants and a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

corporate governance report

Corporate Governance Practices

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

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 Company has made specific enquiry of all its Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have fully complied with the required standard set out in the Model Code during 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 six executive directors, two non-executive directors and three independent non-executive directors.

corporate governance report

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 (appointed on 9 October 2007)

Mr. Marcello Appella

Non-executive Directors

Mr. Antonio Piva (redesignated from executive director to non-executive director on 31 July 2007)

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 the 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 family relationships 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 has assessed their independence and considered that all the independent non-executive Directors are independent.

corporate governance report

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 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. 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.

The Board schedules to hold at least four board meetings a year at approximately quarterly intervals. During the year, five board meetings were held and the attendance of the Directors was as follows:

	Meetings attended/ held
Executive Directors	
Mr. Ngok Yan Yu	5/5
Mr. Lam Hon Keung, Keith	5/5
Ms. Tang Chui Yi, Janny	5/5
Mr. Wong Ming Yeung	5/5
Ms. Tang Wai Ha (appointed on 9 October 2007)	N/A
Mr. Marcello Appella	5/5
Non-executive Directors	
Mr. Antonio Piva (redesignated from executive director to non-executive director on 31 July 2007)	2/5
Mr. Je Kin Ming	4/5
Independent Non-executive Directors	
Mr. Lo Ming Chi, Charles	4/5
Mr. Pao Ping Wing	5/5
Mr. Kwan Hung Sang, Francis	5/5

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.

The remuneration committee had held five meetings during the year. The following is a summary performed by the remuneration committee:

- Grant of share options to Directors and employees;

- Recommendation for the remuneration packages for a newly appointed Director;

- Recommendation for bonus payable to executive Directors, and

- Review of remuneration packages for two executive Directors

The attendance of the committee members was as follows:

	Meetings attended/ held
Mr. Pao Ping Wing	5/5
Mr. Kwan Hung Sang, Francis	5/5
Mr. Ngok Yan Yu	5/5

corporate governance report

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 two meetings, wherein, it nominated Ms. Tang Wai Ha as an executive Director and with the approval of the Board, it nominated Mr. Ngok Yan Yu, Ms. Tang Chui Yi, Janny, Mr. Je Kin Ming and Mr. Pao Ping Wing to retire at the 2007 annual general meeting and stand for re-appointment and they all also offered themselves for re-election by the shareholders of the Company at the 2007 annual general meeting. The attendance of the committee members was as follows:

	Meetings attended/ held
Mr. Ngok Yan Yu	2/2
Mr. Lo Ming Chi, Charles	2/2
Mr. Pao Ping Wing	2/2
Mr. Kwan Hung Sang, Francis	2/2

Auditors' Remuneration

For the year ended 31 December 2007, 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	1,822
Non-audit related service	119
	1,941

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 2007;

- To review the annual report and annual results announcement for the year ended 31 December 2006;

- 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 2007, 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.

corporate governance report

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. Press conference is held subsequent to the final results announcement at which the executive Directors avail themselves to questions regarding the Group's operational and financial performances. 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 they are encouraged to attend the AGM and other shareholders' meetings.

directors' report

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2007.

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 49 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 61 of this annual report.

An interim dividend of HK3.0 cents (2006: HK3.0 cents) per share, amounting to a total of HK$8.5 million, was paid to shareholders of the Company on 1 November 2007.

The Board recommends the payment of a final dividend of HK7.0 cents (2006: HK7.0 cents) per share, payable on or about 23 June 2008 to the shareholders whose names appear on the Company's register of members on 27 May 2008, and the retention of the remaining profit for the year. The proposed final dividend together with the interim dividend payment amounts to a total of HK$28 million.

Reserves

The distributable reserves of the Company as at 31 December 2007, calculated in accordance with the provisions of Companies Law of the Cayman Islands, amounted to HK$207.7 million, of which HK$19.8 million has been proposed as final dividend for the year.

Movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 65 to 66 of this annual report.

directors' 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 140 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, including an office building located at Unit 101 on Level 1, Levels 2 to 5, Yaojiang Centre, No. 270 Wusong Road, Hongkou District, Shanghai, PRC for office purposes held on medium-term leases under five certificates of real estate ownership, 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 39 to the consolidated financial statements.

Placing of Existing Shares and Subscription of New Shares

On 29 June 2007, 23,800,000 existing ordinary shares in the Company were placed at the price of HK$4.29 per share (the "Placing Price") through a share placement arrangement ("Share Placement") and the Company subsequently issued 23,800,000 new ordinary shares ("New Shares"), with a view to enhance the capital base of the Company. There were 6 placees, all of which are private institutional investors which (including their ultimate beneficial owners, where applicable) are third parties, independent of the Company and connected persons (as defined in the Listing Rules) of the Company. The Placing Price represented a discount of 4.67% of the closing price of HK$4.50 per share in the Company as quoted on the Stock Exchange on 28 June 2007.

The New Shares represented 9.35% of the issued share capital of the Company prior to the Share Placement. The issue price of the New Shares was HK$4.29 per share, which is equivalent to the "Placing Price". A net amount of HK$99.0 million in aggregate, after deducting all related expenses of the Share Placement, was received. As such, the net price for New Share was HK$4.16.

It was considered that the placing and subscription would enhance the capital base of the Company. The net proceeds were intended to be used towards the Group's future acquisition opportunities, to expand the Group's retailing and distribution businesses and as general working capital.

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.

Use of Proceeds from the Company's Initial Public Offering

The net proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 13 July 2006, after deduction of related issuance expenses, amounted to HK$101.6 million. These proceeds have been applied in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

- HK$48.0 million was used in the expansion of existing joint ventures and establishment of new joint ventures as well as to fund strategic alliances;
- HK$15.0 million was used in the acquisition of production machinery and equipment;
- HK$8.0 million was used in the implementation of information management system;
- HK$23.2 million was used for the repayment of bank borrowings; and
- HK$7.4 million was applied as additional working capital of the Group.

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 46 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 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 (appointed on 9 October 2007)

Mr. Marcello Appella

Non-executive directors

Mr. Antonio Piva (redesignated from executive director to non-executive director on 31 July 2007)

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. Lam Hon Keung, Keith, Mr. Wong Ming Yeung, Mr. Marcello Appella and Mr. Kwan Hung Sang, Francis will retire from office by rotation and, being eligible offers themselves for re-election at the forthcoming annual general meeting. In accordance with article 86 of the articles of association of the Company, Ms. Tang Wai Ha who was appointed by the Board as an executive Director on 9 October 2007, shall hold office only until the forthcoming annual general meeting and shall then be eligible for re-election.

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 21 to 26 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 entered into exclusive sourcing arrangements with H4T S.r.l. for the sourcing of *ST* products. H4T S.r.l. is a company indirectly wholly owned by Mr. Ngok Yan Yu, a controlling shareholder and the chairman of the Company and hence a connected person of the Company under Chapter 14A of the Listing Rules.

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 complete, 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 2007, 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)	36.00%
		93,800,000 (S)	33.16%
Ms. Tang Chui Yi, Janny	Interest of a spouse (Note 2)	101,829,470 (L)	36.00%
		93,800,000 (S)	33.16%
Mr. Lam Hon Keung, Keith	Beneficial owner	100,000 (L)	0.04%
	Interest of a controlled corporation (Note 3)	1,594,710 (L)	0.56%
Mr. Wong Ming Yeung	Beneficial owner	90,000 (L)	0.03%
Mr. Marcello Appella	Interest of a controlled corporation (Note 4)	3,588,030 (L)	1.27%
Mr. Je Kin Ming	Interest of a controlled corporation (Note 5)	5,980,050 (L)	2.11%
Mr. Kwan Hung Sang, Francis	Beneficial owner	180,000 (L)	0.06%

(L) denotes a long position and (S) denotes a short position in the shares of the Company.

directors' report

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 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 Polybest Group Limited ("Polybest"), which was wholly owned by Mr. Lam Hon Keung, Keith, an executive Director. As such, Mr. Lam Hon Keung, Keith was deemed or taken to be interested in the Shares held by Polybest for the purposes of the SFO.

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

5. 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. 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	20%
	Charm Hero	Interest of a controlled corporation (Note 2)	2	100%
Ms. Tang Chui Yi, Janny	Complete Expert	Interest of a spouse (Note 3)	20	20%
	Charm Hero	Interest of a spouse (Note 3)	2	100%

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 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 director	Balance as at 1 January 2007	Granted during the year	Exercised during the year	Balance as at 31 December 2007	Exercisable period	Exercise price	Approximate percentage of issued share capital of the Company
	Number of share options						
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	
	1,000,000	300,000	-	1,300,000			0.46%
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	
	800,000	400,000	-	1,200,000			0.42%
Mr. Lam Hon Keung, Keith	500,000 (Note 2)	-	(100,000)	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	
	500,000	200,000	(100,000)	600,000			0.21%

directors' report

Name of director	Balance as at 1 January 2007	Granted during the year	Exercised during the year	Balance as at 31 December 2007	Exercisable period	Exercise price	Approximate percentage of issued share capital of the Company
	Number of share options						
Mr. Wong Ming Yeung	500,000 (Note 2)	-	(250,000)	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	
	500,000	300,000	(250,000)	550,000			0.19%
Ms. Tang Wai Ha	200,000 (Note 4)	-	(200,000)	-	13/7/2006 - 12/7/2009	HK$1.88	
	-	300,000 (Note 5)	-	300,000	7/5/2007 - 6/5/2010	HK$2.9	
	200,000	300,000	(200,000)	300,000			0.11%
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	
	500,000	250,000	-	750,000			0.27%
Mr. Antonio Piva	500,000 (Note 2)	-	-	500,000	14/9/2006 - 13/9/2009	HK$2.60	0.18%
Mr. Je Kin Ming	500,000 (Note 2)	-	-	500,000	14/9/2006 - 13/9/2009	HK$2.60	0.18%

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

directors' report

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 2,500,000 which represents 0.88% of the issued share capital of the Company as at 31 December 2007.

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 13 July 2006, would vest on 13 July 2006 and be exercisable from 13 July 2006 to 12 July 2009.

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

Save as disclosed above, as at 31 December 2007, 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, Underlying Shares and Debentures of the Company

As at 31 December 2007, the following shareholders (other than the Directors or chief executives 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 shareholder	Capacity	Number of Shares held	Approximate percentage of shareholdings
Charm Hero	Beneficial owner (Note 1)	101,829,470 (L)	36.00%
		93,800,000 (S)	33.16%
Mensun	Interest of a controlled corporation (Note 1)	101,829,470 (L)	36.00%
		93,800,000 (S)	33.16%
Daniel Saul Och	Interest of a controlled corporation (Note 2)	93,800,000(L)	33.16%
Och-Ziff Capital Management Group LLC	Interest of a controlled corporation (Note 2)	93,800,000(L)	33.16%
OZ Management L.P.	Investment manager (Note 2)	93,800,000(L)	33.16%

directors' report

Name of shareholders	Capacity	Number of Shares held	Approximate percentage of shareholdings
OZMD IR, LLC	Person having a security interest in shares (Note 2)	42,069,300(L)	14.87%
OZAS IR, LLC	Person having a security interest in shares (Note 2)	39,602,360(L)	14.00%
Keywise Capital Management (HK) Limited	Investment manager (Note 3)	23,696,000(L)	8.38%
Keywise Greater China Opportunities Master Fund	Beneficial owner (Note 3)	23,696,000(L)	8.38%
Cheah Cheng Hye	Founder of a discretionary trust (Note 4)	20,188,420(L)	7.14%
To Hau Yin	Interest of a spouse (Note 4)	20,188,420(L)	7.14%
Hang Seng Bank Trustee International Limited	Trustee (Note 4)	20,188,420(L)	7.14%
Cheah Company Limited	Interest of a controlled corporation (Note 4)	20,188,420(L)	7.14%
Cheah Capital Management Limited	Interest of a controlled corporation (Note 4)	20,188,420(L)	7.14%
Value Partners Group Limited	Interest of a controlled corporation (Note 4)	20,188,420(L)	7.14%

directors' report

Name of shareholders	Capacity	Number of Shares held	Approximate percentage of shareholdings
Value Partners Limited	Investment manager (Note 4)	20,188,420(L)	7.14%
Ward Ferry Management (BVI) Limited	Investment manager (Note 5)	18,498,000(L)	6.54%
New World Development Company Limited	Interest of a controlled corporation (Note 6)	15,199,320(L)	5.37%
New World Enterprise Holdings Limited	Interest of a controlled corporation (Note 6)	15,199,320(L)	5.37%
New World China Industrial Limited	Interest of a controlled corporation (Note 6)	15,199,320(L)	5.37%
New World China Enterprises Investments Limited	Interest of a controlled corporation (Note 6)	15,199,320(L)	5.37%
New World Liberty China Ventures Limited	Interest of a controlled corporation (Note 6)	15,199,320(L)	5.37%
Liberty New World China Enterprises Investments, LP	Interest of a controlled corporation (Note 6)	15,199,320(L)	5.37%
Smart Fame Holdings Limited	Beneficial owner (Note 6)	15,199,320(L)	5.37%

directors' report

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 39,602,360 Shares by OZAS IR, LLC, as to 42,069,300 Shares by OZMD IR, LLC, and as to 12,128,340 Shares by SIMF IR, LLC. OZAS IR, LLC, OZMD IR, LLC and SIMF IR, LLC were wholly owned subsidiaries of OZ Management L.P., which was in turn a wholly owned subsidiary of Och-Ziff Holding Corporation, which was in turn a wholly owned subsidiary of Och-Ziff Capital Management Group LLC, which was in turn owned as to 79.1% by Daniel Saul Och. As such, OZ Management L.P., Och-Ziff Holding Corporation, Och-Ziff Capital Management Group LLC and Daniel Saul Och were deemed to be beneficially interested in the Shares held by OZAS IR, LLC, OZMD IR, LLC and SIMF IR, LLC for the purposes of the SFO.

3. These Shares were held by Keywise Greater China Opportunities Master Fund as their beneficial owner and were held by Keywise Capital Management (HK) Limited as their investment manager. As such, Keywise Capital Management (HK) Limited was deemed or taken to be beneficially interested in the Shares held by Keywise Greater China Opportunities Master Fund for the purpose of the SFO.

4. These Shares were held by Value Partners Limited, a wholly owned subsidiary of Value Partners Group Limited, which was owned as to 35.7% by Cheah Capital Management Limited, a wholly owned subsidiary of Cheah Company Limited, whose entire issued capital was held by Hang Seng Bank Trustee International Limited (acting as trustee for The C H Cheah Family Trust of which Mr. Cheah Cheng Hye is a discretionary object). As such, Cheah Cheng Hye and To Hau Yin as his spouse were deemed or taken to be interested in the Shares held by Value Partners Limited for the purpose of the SFO.

5. These Shares were held as to 11,498,000 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.

6. These Shares were held by Smart Fame Holdings Limited, a wholly owned subsidiary of New World Liberty China Ventures Limited, 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 2007 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 and is therefore 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 year ended 31 December 2007, Pro-Brilliance did not directly pay any royalties to Morgan, instead, the sub-licensee paid 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 and is therefore a 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 ("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 year ended 31 December 2007, Pro-Brilliance did not pay any royalties to Morgan, instead, the sub-licensee paid HK$717,600 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 HK$1,528,000 for the year ended 31 December 2007.

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) Garment Manufacturing Co., Ltd. ("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$107,381), for a term of three years commencing from 10 March 2005 to 9 March 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 Morgan. Thus, M.D.T. (Nanjing) is an associate of Morgan 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.

For the year ended 31 December 2007, the aggregate monthly rental paid by M.D.T. (Nanjing) to Hembly (Nanjing) was RMB898,794 (equivalent to HK$931,393).

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.

Production and Outsourcing Agreement

On 26 August 2004, M.D.T. (China), owned as to 51% by the Company and 49% by Morgan, and Morgan entered into a production and outsourcing agreement (as supplemented by a supplemental agreement dated 15 June 2006) (collectively the "Production and Outsourcing Agreement") for a term of three years until 25 August 2007. Pursuant to the Production and Outsourcing Agreement, Morgan grants to M.D.T. (China) (i) the non-exclusive right to produce feminine items of clothing bearing certain trademarks of ***Morgan*** for Morgan in the PRC, Hong Kong and Macau, and (ii) the non-exclusive right but with the first right of refusal to source finished products, fabrics, accessories components and other raw materials for Morgan in the PRC, Hong Kong and Macau.

Morgan is a substantial shareholder of a subsidiary of the Company and is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

There was no transaction between M.D.T. (China) and Morgan under the Production and Outsourcing Agreement during the year ended 31 December 2007.

directors' report

Sourcing Agreement

On 4 July 2007, Hembly Garment Manufacturing Limited, a wholly-owned subsidiary of the Company entered into sourcing agreement (the "Sourcing Agreement") with H4T S.r.l. for a term of 19 months commencing from 1 June 2007 to 31 December 2008. Pursuant to the Sourcing Agreement, H4T S.r.l. 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, H4T S.r.l. is a company indirectly wholly-owned by Mr. Ngok Yan Yu, a controlling shareholder and the chairman of the Company and hence a connected person of the Company under Chapter 14A of the Listing Rules.

For the period ended 31 December 2007, the provision of sourcing services by Hembly Garment Manufacturing Limited, its subsidiaries and fellow subsidiaries to H4T S.r.l amounted to about HK$213,877,000.

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: (i) 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; and (ii) the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the Production and Outsourcing 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 58% of the Group's total sales for the year and sales to the Group's largest customer included therein accounted for 27%.

H4T S.r.l. was the Group's largest customer 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 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.

Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 27 to 36 of this annual report.

Auditors

The consolidated financial statements for the year ended 31 December 2007 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, 15 April 2008

independent auditor's report

Deloitte.
德勤

TO THE MEMBERS OF HEMBLY INTERNATIONAL HOLDINGS LIMITED

(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 61 to 139, which comprise the consolidated balance sheet as at 31 December 2007, 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.

independent auditor's report

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 2007 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

15 April 2008

consolidated income statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	7	**1,036,956**	611,689
Cost of sales		**(697,206)**	(391,801)
Gross profit		**339,750**	219,888
Fair value change of an investment property		**13,249**	–
Other income	9	**15,095**	5,554
Administrative expenses		**(134,107)**	(86,430)
Distribution and selling costs		**(63,518)**	(24,967)
Finance costs	10	**(40,517)**	(23,256)
Profit before tax	11	**129,952**	90,789
Income tax expense	12	**(21,828)**	(13,296)
Profit for the year		**108,124**	77,493
Attributable to:			
Equity holders of the Company		**107,747**	78,128
Minority interests		**377**	(635)
		108,124	77,493
Dividends recognised as distribution during the year	15	**26,236**	7,586
Earnings per share	16		
Basic		**HK40.32 cents**	HK36.50 cents
Diluted		**HK39.93 cents**	HK36.47 cents

consolidated balance sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	17	**230,983**	175,106
Investment property	18	**71,505**	–
Intangible asset	19	**10,186**	–
Goodwill	20	**20,800**	–
Prepaid lease payments	22	**64,911**	59,391
Loan to a jointly controlled entity	24	**5,168**	5,168
Available-for-sale investments	25	**2,870**	5,424
Deferred tax assets	38	**287**	–
		406,710	245,089
Current assets			
Inventories	26	**178,559**	107,315
Trade receivables	27	**243,759**	187,932
Deposits, prepayments and other receivables		**109,058**	58,229
Prepaid lease payments	22	**1,389**	1,246
Loans to jointly controlled entities	24	**8,273**	5,596
Amount due from a minority shareholder	28	**6,689**	1,300
Amount due from a related company	29	**174,388**	–
Amounts due from jointly controlled entities	30	**6,609**	6,112
Available-for-sale investments	25	**3,174**	1,960
Tax recoverable		**–**	1,584
Pledged bank deposits	31	**48,099**	57,462
Bank deposits with original maturity of more than three months	31	**313,767**	150,000
Bank balances and cash	31	**112,223**	30,982
		1,205,987	609,718
Assets classified as held for sale	32	**41,530**	–
		1,247,517	609,718

consolidated balance sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Current liabilities			
Trade payables	33	**131,260**	58,631
Other payables and accruals		**84,736**	28,802
Loans from joint venturers of jointly controlled entities	34	**13,441**	6,273
Amounts due to joint venturers of jointly controlled entities	30	**17,097**	6,682
Amount due to a jointly controlled entity	30	**5,812**	–
Taxation payable		**26,064**	10,459
Obligations under finance leases – due within one year	35	**910**	328
Bank borrowings – due within one year	36	**426,009**	287,871
Bank overdrafts	36	**607**	76
		705,936	399,122
Liabilities associated with assets classified as held for sale	32	**13,080**	–
		719,016	399,122
Net current assets		**528,501**	210,596
Total assets less current liabilities		**935,211**	455,685
Non-current liabilities			
Loans from joint venturers of jointly controlled entities	34	**–**	5,168
Obligations under finance leases – due after one year	35	**2,019**	596
Bank borrowings – due after one year	36	**257,128**	104,710
Convertible redeemable preference shares	37	**68,071**	–
Conversion option derivative liability	37	**22,022**	–
Deferred tax liabilities	38	**3,411**	–
		352,651	110,474
		582,560	345,211

consolidated balance sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Capital and reserves			
Share capital	39	**28,283**	25,288
Reserves		**546,624**	319,902
Equity attributable to equity holders of the Company		**574,907**	345,190
Minority interests		**7,653**	21
		582,560	345,211

The consolidated financial statements on pages 61 to 139 were approved and authorised for issue by the board of directors on 15 April 2008 and are signed on its behalf by:

DIRECTOR

DIRECTOR

consolidated statement of changes in equity

For the year ended 31 December 2007

	Attributable to equity holders of the Company											
	Share capital	**Share premium**	**Enterprise expansion reserve**	**Statutory reserve**	**Translation reserve**	**Share options reserve**	**Special reserve**	**Investment revaluation reserve**	**Retained profits**	**Total**	**Minority interests**	**Total**
	HK$'000	HK$'000	HK$'000 (Note a)	HK$'000 (Note b)	HK$'000	HK$'000	HK$'000 (Note c)	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2006	7	31,037	2,015	3,356	2,370	–	3,008	(201)	106,706	148,298	656	148,954
Exchange differences arising on translation of foreign operations	–	–	–	–	8,588	–	–	–	–	8,588	–	8,588
Gain on fair value change of available–for-sale investments	–	–	–	–	–	–	–	89	–	89	–	89
Income recognised directly in equity	–	–	–	–	8,588	–	–	89	–	8,677	–	8,677
Profit for the year	–	–	–	–	–	–	–	–	78,128	78,128	(635)	77,493
Total recognised income for the year	–	–	–	–	8,588	–	–	89	78,128	86,805	(635)	86,170
Reserve arising from group restructuring	3,993	(31,037)	–	–	–	–	27,044	–	–	–	–	–
Issue of shares	7,008	112,128	–	–	–	–	–	–	–	119,136	–	119,136
Issue of shares on capitalisation of share premium accounts	14,000	(14,000)	–	–	–	–	–	–	–	–	–	–
Share issuance expenses	–	(8,616)	–	–	–	–	–	–	–	(8,616)	–	(8,616)
Exercise of share options	280	4,984	–	–	–	–	–	–	–	5,264	–	5,264
Recognition of equity– settled share based payments	–	–	–	–	–	1,889	–	–	–	1,889	–	1,889
Transfer	–	–	–	4,104	–	–	–	–	(4,104)	–	–	–
Interim dividend paid	–	–	–	–	–	–	–	–	(7,586)	(7,586)	–	(7,586)
At 31 December 2006 and 1 January 2007	25,288	94,496	2,015	7,460	10,958	1,889	30,052	(112)	173,144	345,190	21	345,211
Exchange differences arising on translation of foreign operations	–	–	–	–	27,786	–	–	–	–	27,786	566	28,352
Gain on fair value change of available– for-sale investments	–	–	–	–	–	–	–	620	–	620	–	620

consolidated statement of changes in equity

For the year ended 31 December 2007

	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	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
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

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 shares capital and share premium of Full Prosper acquired by the Company pursuant to a group reorganisation ("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 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**129,952**	90,789
Adjustments for:		
Depreciation of property, plant and equipment	**15,007**	10,239
Amortisation of prepaid lease payments	**1,278**	623
Share-based payment expense	**4,141**	1,889
Share issuance expense charged to consolidated income statement	**–**	9,772
Finance costs	**40,517**	23,256
Interest income	**(7,853)**	(3,477)
Impairment loss recognised in respect of trade receivables	**3,226**	–
Reversal of impairment loss on loan to a jointly controlled entity	**(677)**	–
Allowance for inventories	**1,675**	–
Gain on disposal of available-for-sale investments	**(278)**	–
Loss on disposal of property, plant and equipment	**1,061**	696
Amortisation of intangible asset	**631**	–
Increase in fair value of an investment property	**(13,249)**	–
Operating cash flows before movements in working capital	**175,431**	133,787
Increase in inventories	**(66,209)**	(36,892)
Increase in trade receivables	**(56,049)**	(93,614)
Increase in deposits, prepayments and other receivables	**(48,318)**	(10,180)
Decrease in amount due from a minority shareholder	**1,300**	9,284
Increase in amount due from a related company	**(174,388)**	–
Increase in trade payables	**69,648**	14,876
Increase (decrease) in other payables and accruals	**25,726**	(5,738)
Increase in amounts due to joint venturers of jointly controlled entities	**10,415**	5,225
Increase (decrease) in amount due to a jointly controlled entity	**5,812**	(2,622)

consolidated cash flow statement

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
Cash (used in) from operations	**(56,632)**	14,126
Hong Kong Profits Tax refund (paid)	**1,472**	(4,065)
Tax paid for other jurisdictions	**(3,446)**	(2,659)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(58,606)**	7,402
INVESTING ACTIVITIES		
Increase in bank deposits with original maturity of more than three months	**(163,767)**	(150,000)
Purchase of property, plant and equipment	**(57,527)**	(61,504)
Purchase of investment property	**(56,181)**	–
Purchase of additional interest in a subsidiary	**(20,800)**	–
Purchase of intangible asset	**(10,817)**	–
Increase in prepaid lease payments	**(2,818)**	(30,536)
Loans to jointly controlled entities	**(2,000)**	(9,190)
Increase in amounts due from jointly controlled entities	**(497)**	(6,112)
Decrease (increase) in pledged bank deposits	**9,363**	(24,894)
Interest received	**7,853**	3,477
Proceeds on disposal of available-for-sale investments	**2,238**	–
Proceeds on disposal of property, plant and equipment	**159**	1,091
Purchase of available-for-sale investments	**–**	(2,496)
Decrease in amounts due from related companies	**–**	21,845
NET CASH USED IN INVESTING ACTIVITIES	**(294,794)**	(258,319)

consolidated cash flow statement

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
FINANCING ACTIVITIES		
New bank borrowings raised	**2,047,297**	1,228,242
Issuance of convertible redeemable preference shares	**90,859**	–
Proceeds from issue of ordinary shares	**118,812**	124,400
Loans from joint venturers of jointly controlled entities	**2,000**	9,191
Repayment of bank borrowings	**(1,761,726)**	(1,074,925)
Interest paid	**(40,517)**	(23,256)
Dividend paid	**(26,236)**	(7,586)
Share issuance expenses	**(3,153)**	(18,388)
Repayment of obligations under finance leases	**(329)**	(1,490)
NET CASH FROM FINANCING ACTIVITIES	**427,007**	236,188
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**73,607**	(14,729)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**7,103**	2,874
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**30,906**	42,761
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**111,616**	30,906
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**112,223**	30,982
Bank overdrafts	**(607)**	(76)
	111,616	30,906

notes to the consolidated financial statements

For the year ended 31 December 2007

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 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 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 ("HKD"), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

notes to the consolidated financial statements

For the year ended 31 December 2007

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

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

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

[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 July 2009

[3] Effective for annual periods beginning on or after 1 March 2007

[4] Effective for annual periods beginning on or after 1 January 2008

[5] Effective for annual periods beginning on or after 1 July 2008

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

notes to the consolidated financial statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under 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 Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange 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 aggregate of the carrying amounts of identified assets and liabilities of the subsidiaries and any excess of the consideration over the net assets acquired.

notes to the consolidated financial statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 before 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.

notes to the consolidated financial statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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. 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.

Non-current assets held for sale

A disposal group classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell as at balance sheet date. A subsidiary (or disposal group) that is acquired exclusively with a view to its subsequent disposal is classified as held for sale at the acquisition date if it is evidenced that it is intended to be disposed of within twelve months and that management is actively seeking a buyer.

A disposal group, classified as held for sale are measured on initial recognition at the lower of carrying amount had it not been so classified and fair value less costs to sell. On subsequent remeasurement, any assets and liabilities that are not within the scope of the measurement requirements of HKFRS 5 *Non-current Assets held for Sale and Discontinued Operations* but are included in a disposal group classified as held for sale are remeasured in accordance with the relevant applicable accounting policies before the fair value less costs to sell of the disposal group is remeasured.

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.

notes to the consolidated financial statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Sales of goods are recognised when goods are delivered and title has passed.

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

Commission income and 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 assets 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, 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:–

Buildings	4.5%
Leasehold improvement	shorter of useful life or the lease term
Plant and machinery	9% to 20%
Furniture, fixtures and equipment	10% to 20%
Motor vehicles	10% to 20%

notes to the consolidated financial statements

For the year ended 31 December 2007

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.

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use.

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.

notes to the consolidated financial statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 lessee

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

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

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.

notes to the consolidated financial statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, 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.

notes to the consolidated financial statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of financial assets are set out below.

notes to the consolidated financial statements

For the year ended 31 December 2007

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.

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 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 financial assets at fair value through profit or loss, 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).

notes to the consolidated financial statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets

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

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

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio which exceed 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.

notes to the consolidated financial statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets *(continued)*

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, 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 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.

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.

notes to the consolidated financial statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity (continued)

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. 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, amounts due to joint venturers of jointly controlled entities and jointly controlled entities, loans from joint venturers of jointly controlled entities 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.

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.

notes to the consolidated financial statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

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 asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds.

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.

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.

notes to the consolidated financial statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

Retirement benefit costs

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

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to directors and employees

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

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, 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.

notes to the consolidated financial statements

For the year ended 31 December 2007

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 assumption 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 goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, the carrying amount of goodwill is HK$20,800,000 (2006: Nil). Details of the recoverable amount calculation are disclosed in Note 21.

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 2007, the carrying amount of trade receivable is approximately HK$243,759,000 (2006: HK$187,932,000).

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, bank borrowings and convertible redeemable preference shares disclosed in Notes 34, 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

	2007 HK$'000	2006 HK$'000
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**1,028,033**	499,197
Available-for-sale financial assets	**6,044**	7,384
Financial liabilities		
Amortised cost	**975,569**	475,886
Conversion option derivative liability	**22,022**	–

notes to the consolidated financial statements

For the year ended 31 December 2007

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies

The Group's major financial instruments include loans to jointly controlled entities, trade receivables, other receivables, available-for-sale investments, bank deposits and bank balances, amounts due from (to) a minority shareholder, jointly controlled entities, joint venturers of jointly controlled entities and a related party, trade payables, other payables, loans from joint venturers of jointly controlled entities, convertible redeemable preference shares 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 and Euro, which expose the Group to foreign currency risk. Approximately 75% of the sales of the Group are denominated in currencies other than the functional currencies of the group entity making the sale, whilst almost 37% costs are denominated in currencies other than the group entity's functional currencies. For sales made in United States dollars ("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.

notes to the consolidated financial statements

For the year ended 31 December 2007

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 reporting date are as follows:

	2007	2006
	HK$'000	HK$'000
Assets		
Renminbi	**4,517**	38
Euro	**472**	131
Liabilities		
Renminbi	**12,553**	202
Euro	**3,559**	3,557
USD	**130,769**	260,015

Sensitivity analysis

The Group is mainly exposed to the fluctuations in Renminbi and Euro.

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

notes to the consolidated financial statements

For the year ended 31 December 2007

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

Currency risk *(continued)*

	Renminbi		Euro	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Profit or loss for the year (i)	**562**	11	**105**	240

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

The Group's sensitivity to foreign currency has increased mainly due to the increase in Renminbi payable at year ended 31 December 2007.

Interest Rate Risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate loans from joint venturers of jointly controlled entities, convertible redeemable preference shares and bank borrowings (see Notes 34, 36 and 37 for details of these borrowings). 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). It is the Group's policy to keep its bank borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

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 Hong Kong dollar ("HKD") denominated borrowings.

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk (continued)

Interest Rate Risk *(continued)*

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the variable-rate bank borrowings at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared using the average amount of liability outstanding during the 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.

As at 31 December 2007, 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$2,928,000 (2006: HK$1,474,000).

The Group's sensitivity to interest rates has increased during the current year mainly due to increase of a term loan raised during the year ended 31 December 2007 (Note 36).

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 as disclosed in Note 25 and convertible options derivative liability. 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 analysis below has been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective available-for-sale investment had been 5% higher/lower, investment valuation reserve would increase/decrease by approximately HK$302,000 (2006: increase/decrease by approximately HK$369,000) for the Group as a result of the change in fair value of available-for-sale investments.

If the volatility used in the binomial model for calculating the fair value of the conversion option derivate liability had been 5% higher/lower and all other variables were held constant, profit for the year of the Group would increase/decrease by approximately HK$1,515,000 and HK$1,475,000 respectively (2006: Nil) as a result of the change in fair value of conversion option derivate 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 convertible redeemable preference shares involves multiple variables and certain variables are interdependent.

notes to the consolidated financial statements

For the year ended 31 December 2007

6. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk

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

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

The Group has been largely dependent on a small number of customers for a substantial portion of its business. The largest 5 customers accounted for a total of 45% of the Group's trade receivables as at 31 December 2007 (2006: 50%). 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 55% and 45%, respectively (2006: 27% and 73% respectively) of the total trade receivable as at 31 December 2007.

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$174,388,000 as at 31 December 2007. The Group considers the risk is minimal as there is continue trade and settlement with the related company.

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

Liquidity risk

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

notes to the consolidated financial statements

For the year ended 31 December 2007

6. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

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 2007 and 2006. 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
2007								
Trade and other payables	–	–	164,352	20,123	-	–	184,475	184,475
Loans from joint venturers of jointly controlled entities	2.8%	–	–	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 share (Note)	15.0%	–	–	–	-	99,945	99,945	68,071
Obligations under finance leases	3.2%	–	262	786	891	1,277	3,216	2,929
Bank borrowings								
– Fixed rate	5.5%	-	-	-	52,183	-	52,183	48,206
– Variable rate	4.8%	–	294,656	143,599	130,611	96,979	665,845	634,931
Bank overdrafts	1.6%	617	-	–	–	–	617	607
		617	459,270	201,530	183,685	198,201	1,043,303	975,569
2006								
Trade and other payables	–	–	60,475	3,707	-	–	64,182	64,182
Loans from joint venturers of jointly controlled entities	3.0%	–	–	6,386	5,698	–	12,084	11,441
Amounts due to joint venturers of jointly controlled entities	–	–	–	6,682	–	–	6,682	6,682
Obligations under finance leases	3.2%	–	92	276	368	298	1,034	924
Bank borrowings								
– Fixed rate	5.4%	-	-	-	21,512	-	21,512	20,000
– Variable rate	2.8%	–	242,869	49,190	81,776	9,081	382,916	372,581
Bank overdrafts	0.7%	76	–	–	–	–	76	76
		76	304,436	66,241	109,354	9,379	488,486	475,886

notes to the consolidated financial statements

For the year ended 31 December 2007

6. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

Liquidity and interest risk tables *(continued)*

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

6c. Fair value

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

- the fair value of financial assets held with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices;
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- the fair value of conversion option derivative liability is measured using the binomial 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

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

notes to the consolidated financial statements

For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENT

Business segments

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

Segment information about these businesses is presented below.

Year ended 31 December 2007

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

Inter-segment sales are charged at prevailing market rates.

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

notes to the consolidated financial statements

For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENT *(continued)*

Business segments *(continued)*

Year ended 31 December 2007

BALANCE SHEET

	Manufacture and sales of apparel and accessories HK$'000	Distribution and retailing of apparel and footwear HK$'000	Consolidated HK$'000
ASSETS			
Segment assets	879,793	167,479	1,047,272
Unallocated corporate assets			606,955
			1,654,227
LIABILITIES			
Segment liabilities	(181,329)	(40,451)	(221,780)
Unallocated corporate liabilities			(849,887)
			(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	31,384	39,294	56,181	126,859
Amortisation of prepaid lease payments	1,044	234	-	1,278
Amortisation of intangible asset	–	631	-	631
Depreciation of property, plant and equipment	11,111	3,896	-	15,007
Loss on disposal of property, plant and equipment	2	1,059	-	1,061
Allowance of trade receivables	2,098	1,128	-	3,226
Allowance of inventories	–	1,675	-	1,675

notes to the consolidated financial statements

For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENT *(continued)*

Business segments *(continued)*

Year ended 31 December 2006

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

Inter-segment sales are charged at prevailing market rates.

	Manufacture and sales of apparel and accessories HK$'000	Distribution and retailing of apparel and footwear HK$'000	Other HK$'000	Eliminations HK$'000	Consolidated HK$'000
RESULT					
Segment result	121,445	91	61	–	121,597
Unallocated income					3,477
Unallocated corporate expense					(11,029)
Finance costs					(23,256)
Profit before tax					90,789
Income tax expense					(13,296)
Profit for the year					77,493

notes to the consolidated financial statements

For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENT *(continued)*

Business segments *(continued)*

	Manufacture and sales of apparel and accessories HK$'000	Distribution and retailing of apparel and footwear HK$'000	Other HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	539,854	50,521	–	590,375
Unallocated corporate assets				264,432
				854,807
LIABILITIES				
Segment liabilities	(73,453)	(13,974)	(6)	(87,433)
Unallocated corporate liabilities				(422,163)
				(509,596)

OTHER INFORMATION

	Manufacture and sales of apparel and accessories HK$'000	Distribution and retailing of apparel and footwear HK$'000	Other HK$'000	Consolidated HK$'000
Capital additions	53,867	7,696	–	61,563
Amortisation of prepaid lease payments	623	–	–	623
Depreciation of property, plant and equipment	8,073	2,166	–	10,239
Loss on disposal of property, plant and equipment	580	116	–	696

notes to the consolidated financial statements

For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENT *(continued)*

Geographical segments

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

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

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

	Carrying amount of segment assets		Addition to property, plant and equipment and intangible asset	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
The PRC	653,889	416,110	122,037	52,241
Hong Kong	188,624	127,743	4,779	9,308
Macau	165,793	45,737	42	13
Europe	38,966	785	1	1
	1,047,272	590,375	126,859	61,563

notes to the consolidated financial statements

For the year ended 31 December 2007

9. OTHER INCOME

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

10. FINANCE COSTS

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

notes to the consolidated financial statements

For the year ended 31 December 2007

11. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2007 HK$'000	2006 HK$'000
Auditors' remuneration	1,822	1,125
Cost of inventories recognised as an expense	695,531	391,801
Depreciation of property, plant and equipment	15,007	10,239
Amortisation of intangible asset	631	-
Amortisation of prepaid lease payments	1,278	623
Allowance for inventories	1,675	–
Impairment loss recognised in respect of trade receivables	3,226	–
Loss on disposal of property, plant and equipment	1,061	696
Exchange loss	579	2,542
Staff costs		
— directors' remuneration (Note 13)	12,372	8,967
— other staff costs	71,032	35,585
— retirement benefit scheme contribution excluding directors	4,647	3,026
	88,051	47,578

notes to the consolidated financial statements

For the year ended 31 December 2007

12. INCOME TAX EXPENSE

	2007	2006
	HK$'000	HK$'000
Current tax:		
Hong Kong	16	11
Other jurisdictions	18,755	13,345
	18,771	13,356
Under(over)provision in prior years:		
Hong Kong	94	282
Other jurisdictions	(72)	(6)
	22	276
Deferred tax (Note 38):		
Current year	3,035	(336)
	21,828	13,296

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

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

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

notes to the consolidated financial statements

For the year ended 31 December 2007

12. INCOME TAX EXPENSE *(continued)*

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

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

Note: Majority of the operation of the Group is operated by its PRC Subsidiaries which entitle to preferential tax rate of 24%.

notes to the consolidated financial statements

For the year ended 31 December 2007

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 a)	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 2007 HK'000
2007												
Fee	28	–	–	–	517	771	360	360	240	240	240	2,756
Other emoluments												
Salaries and other benefits	1,800	4,000	730	365	396	–	–	–	–	–	–	7,291
Contribution to retirement benefit schemes	12	12	12	3	119	–	–	–	–	–	–	158
Bonus (note b)	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

notes to the consolidated financial statements

For the year ended 31 December 2007

13. DIRECTORS' EMOLUMENTS *(continued)*

	Ngok Yan Yu HK$'000	Tang Chui Yi, Janny HK$'000	Wong Ming Yeung HK$'000	Marcello Appella HK$'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 2006 HK'000
2006											
Fee	34	28	–	434	–	195	195	130	130	130	1,276
Other emoluments											
Salaries and other benefits	1,518	2,665	751	–	1,343	–	–	–	–	–	6,277
Contribution to retirement benefit schemes	12	12	12	235	–	–	–	–	–	–	271
Bonus (note b)	–	200	53	275	–	–	–	–	–	–	528
Share-based compensation	142	113	72	72	72	72	72	–	–	–	615
Total emoluments	1,706	3,018	888	1,016	1,415	267	267	130	130	130	8,967

Notes:

a. Ms. Tang Wai Ha is appointed as director of the Company on 9 October 2007.

b. The bonus paid to directors is determined on discretionary basis.

No director waived or agreed to waive any emoluments for the years ended 31 December 2007 and 2006. 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, 5,750,000 share options (2006: 4,300,000) 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 46.

notes to the consolidated financial statements

For the year ended 31 December 2007

14. EMPLOYEES' EMOLUMENTS

Of the five highest emoluments in the Group, four (2006: 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 2007 (2006: one) is as follows:

	2007	2006
	HK$'000	HK$'000
Salaries and other benefits	**1,321**	1,119
Retirement benefits scheme contributions	**12**	118
	1,333	1,237

15. DIVIDENDS

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

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

notes to the consolidated financial statements

For the year ended 31 December 2007

16. EARNINGS PER SHARE

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

Earnings

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

Number of shares

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

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

notes to the consolidated financial statements

For the year ended 31 December 2007

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Leasehold improvement	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST							
At 1 January 2006	81,013	20,061	2,099	13,407	7,618	6,619	130,817
Exchange realignment	3,240	802	9	533	187	103	4,874
Additions	18,051	17,240	5,324	4,714	15,276	958	61,563
Transfer	38,103	(38,103)	–	–	–	–	–
Disposals	–	–	(1,525)	–	(1,162)	(1,665)	(4,352)
At 31 December 2006	140,407	–	5,907	18,654	21,919	6,015	192,902
Exchange realignment	9,662	704	327	1,318	1,312	415	13,738
Additions	7,398	23,562	9,230	2,349	12,068	5,254	59,861
Disposals	–	–	(529)	(160)	(669)	–	(1,358)
At 31 December 2007	157,467	24,266	14,935	22,161	34,630	11,684	265,143
DEPRECIATION							
At 1 January 2006	3,087	–	1,040	1,437	2,153	1,388	9,105
Exchange realignment	61	–	2	27	25	14	129
Provided for the year	3,639	–	1,753	1,212	2,404	1,231	10,239
Eliminated on disposals	–	–	(1,039)	–	(225)	(413)	(1,677)
At 31 December 2006	6,787	–	1,756	2,676	4,357	2,220	17,796
Exchange realignment	721	–	48	264	303	159	1,495
Provided for the year	4,014	–	2,457	1,685	5,097	1,754	15,007
Eliminated on disposals	–	–	(41)	(21)	(76)	–	(138)
At 31 December 2007	11,522	–	4,220	4,604	9,681	4,133	34,160
CARRYING VALUES							
At 31 December 2007	145,945	24,266	10,715	17,557	24,949	7,551	230,983
At 31 December 2006	133,620	–	4,151	15,978	17,562	3,795	175,106

The Group's buildings are situated in the PRC.

The carrying values of motor vehicles include an amount of approximately HK$3,024,000 (2006: HK$810,000) in respect of assets held under finance leases. Also, the carrying values of furniture, fixtures and equipment include an amount of approximately HK$93,000 (2006: HK$127,000) in respect of assets held under finance leases.

notes to the consolidated financial statements

For the year ended 31 December 2007

18. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
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

The fair value of the Group's investment property at 31 December 2007 has been arrived at on the basis of a valuation carried out on that date by Asset Appraisal Limited, independent qualified professional valuers not connected with the Group. Asset Appraisal Limited, member of the Hong Kong Institute of Valuers, has 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.

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.

notes to the consolidated financial statements

For the year ended 31 December 2007

19. INTANGIBLE ASSET

	Franchise
	HK$'000
COST	
Additions during the year and balance at 31 December 2007	10,817
AMORTISATION	
Provided for the year and balance at 31 December 2007	(631)
CARRYING AMOUNT	
At 31 December 2007	10,186

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.

20. GOODWILL

	HK$'000
COST	
Arise on acquisition of additional interest in a subsidiary and balance at 31 December 2007	20,800

On 26 June 2007, the Group acquired additional equity interests in Well Metro Group Limited ("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.

notes to the consolidated financial statements

For the year ended 31 December 2007

21. IMPAIRMENT LOSS ON GOODWILL

Goodwill acquired on acquisition of additional interest in a subsidiary was allocated, at acquisition, to the cash generating unit ("CGU") — distribution and retailing of apparel and footwear business operated by Well Metro — that is expected to benefit from that additional interest in a subsidiary. During the year ended 31 December 2007, the management of the Group recognised no impairment of goodwill as the performance of the distribution and retailing and apparel and footwear business was satisfactory and positive net asset value was noted as at 31 December 2007.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

The recoverable amount of HK$20,800,000 have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a three-year period at a discount rate of 12% per annum. Cash flows beyond the three-year period are extrapolated at zero growth rate. 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.

22. PREPAID LEASE PAYMENTS

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

The amounts represents land use rights located in the PRC and is released to consolidated income statement over the term of the relevant rights of 50 years.

notes to the consolidated financial statements

For the year ended 31 December 2007

23. INTERESTS IN JOINTLY CONTROLLED ENTITIES

As at 31 December 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 Group		Principal activity
			2007	2006	
Lotto Nanjing Garment Company Limited	PRC	Registered capital	**46.7%**	35.0%	Sourcing, distribution of apparel and footwear
Lotto Shanghai Garment Company Limited	PRC	Registered capital	**46.7%**	35.0%	Sourcing, distribution of apparel and footwear
STF Nanjing Garment Company Limited	PRC	Registered capital	**46.7%**	35.0%	Sourcing, distribution of apparel and footwear
STF Shanghai Company Limited	PRC	Registered capital	**46.7%**	35.0%	Sourcing, distribution of apparel and footwear
Shanghai Sisley Trading Company Limited	PRC	Registered capital	**46.7%**	–	Sourcing, distribution of apparel and footwear
M.T.T. Yangzhou Garment Company Limited	PRC	Registered capital	**50.0%**	50.0%	Sourcing, distribution of apparel and footwear

The table above lists the jointly controlled entities 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:

	2007	2006
	HK$'000	HK$'000
Current assets	**88,217**	45,138
Non-current assets	**15,539**	9,155
Current liabilities	**92,629**	51,498
Non-current liabilities	**12,345**	5,167
Income	**87,724**	21,282
Expenses	**(88,930)**	(30,207)

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

Loan to a jointly controlled entity under non-current assets is unsecured, interest bearing at 5% per annum and is not repayable within twelve months from the balance sheet date.

Loans to jointly controlled entities under current assets include an amount of HK$2,250,000 (2006: HK$1,573,000) which is unsecured, interest bearing at 5% per annum and repayable within one year. The remaining current balances are unsecured, non-interest bearing and repayable within one year.

notes to the consolidated financial statements

For the year ended 31 December 2007

25. AVAILABLE-FOR-SALE INVESTMENTS

	2007	2006
	HK$'000	HK$'000
Funds — unlisted securities	**6,044**	7,384
Analysed for reporting purpose as:		
Current asset	**3,174**	1,960
Non-current asset	**2,870**	5,424
	6,044	7,384

The Funds represents Hang Seng 100% and 108% Capital Guaranteed HK Equity Fund (2006: HSBC 107 Capital Guaranteed Asia Fund, 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.

26. INVENTORIES

	2007	2006
	HK$'000	HK$'000
Raw materials	**20,119**	42,524
Work in progress	**133,538**	54,537
Finished goods	**24,902**	10,254
	178,559	107,315

notes to the consolidated financial statements

For the year ended 31 December 2007

27. TRADE RECEIVABLES

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

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

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

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

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

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

notes to the consolidated financial statements

For the year ended 31 December 2007

27. TRADE RECEIVABLES *(continued)*

Ageing of trade receivables which are past due but not impaired

	2007	2006
	HK$'000	HK$'000
0-90 days	**11,447**	10,194
91-180 days	**8,810**	6,700
181-360 days	**9,834**	619
Over 360 days	**1,454**	1,858
Total	**31,545**	19,371

Movement in the allowance for doubtful debts

	2007	2006
	HK$'000	HK$'000
Balance at beginning of the year	**133**	133
Exchange realignment	**38**	–
Impairment losses recognised on receivables	**3,226**	–
Balance at end of the year	**3,397**	133

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

28. AMOUNT DUE FROM A MINORITY SHAREHOLDER *(continued)*

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

	2006 HK$'000
0–90 days	1,235
91–180 days	26
181–360 days	39
Total	1,300

At 31 December 2006, included in amount due from a minority shareholder is aggregate carrying amount of HK$65,000 which are past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The balances have been subsequently settled.

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

	2006 HK$'000
91 – 180 days	26
181 – 360 days	39
Total	65

29. AMOUNT DUE FROM A RELATED COMPANY

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

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

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

notes to the consolidated financial statements

For the year ended 31 December 2007

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

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

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

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

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

	2007
	HK$'000
91-180 days	**13,850**
181-360 days	**6,220**
Total	**20,070**

30. AMOUNTS DUE FROM (TO) JOINTLY CONTROLLED ENTITIES AND AMOUNTS DUE TO JOINT VENTURERS OF JOINTLY CONTROLLED ENTITIES

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

notes to the consolidated financial statements

For the year ended 31 December 2007

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 2.6% (2006: 3.1%) for the year ended 31 December 2007. The bank balances carry interest at market rates which range from 1.0% to 2.0% (2006: 2.0% to 4.0%).

The Group has bank balances and deposits of approximately HK$378,560,008 (2006: HK$165,154,000) where the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

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

In December 2007, Hembly Italia S.r.l, one of the wholly owned subsidiaries of the Company, acquired 100% interest in Pianeta Terra S.r.l. ("PT"), for an amount of approximately HK$28,450,000 (EUR2.5 millions). PT was incorporated in 2007 and owns a patent in Europe contributed by the former shareholder. The Group acquired PT with an intention to expand its retail business. 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 at 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.

Pursuant to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the Group classified the assets and liabilities of PT as asset held for sale and liabilities associated with assets held for sale, respectively.

As at 31 December 2007, PT has not commenced operation and incurred insignificant expenditure for the year ended 31 December 2007.

notes to the consolidated financial statements

For the year ended 31 December 2007

33. TRADE PAYABLES

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

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

34. LOANS FROM JOINT VENTURERS OF JOINTLY CONTROLLED ENTITIES

At 31 December 2007, loans from joint venturers of jointly controlled entities include an amount of HK$7,418,000 (2006: HK$2,250,000) which is unsecured, interest bearing at 5% and repayable within one year. The remaining were unsecured, non-interest bearing and repayable within one year.

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

notes to the consolidated financial statements

For the year ended 31 December 2007

35. OBLIGATIONS UNDER FINANCE LEASES

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

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 2007, the average effective borrowing rates were 3.2% (2006: 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.

notes to the consolidated financial statements

For the year ended 31 December 2007

36. BANK BORROWINGS

During the year ended 31 December 2007, the Group has obtained a syndicated unsecured loan in the amount of HK$200 million. The loan is for a 3 years transferrable term loan facility, bears interest at HIBOR plus 1.55% per annum and is repayable by the following 2 tranches, namely: (i) tranche 1 in the amount of HK$133.33 million repayable by 9 equal quarterly installments commencing 12 months from the date of the loan; and (ii) tranche 2 in the amount of HK$66.67 million being repayable and re-borrowable on a revolving basis during the period between the date of the loan and one month prior to the loan's maturity, subject to non-occurrence of events of default and/or potential default of the loan, with all outstanding principal to be repaid in one lump sum at the loan's maturity. The effective interest rate of this syndicated unsecured loan is 8.0% (2006: Nil). The proceeds are used to finance general working capital and capital expenditure of the Group.

	2007	2006
	HK$'000	HK$'000
Bank borrowings	**683,137**	392,581
Bank overdrafts	**607**	76
	683,744	392,657
Analysed as:		
Secured	**387,134**	333,777
Unsecured	**296,610**	58,880
	683,744	392,657
Carrying amount repayable:		
Within one year	**426,009**	287,871
More than one year, but not exceeding two years	**172,724**	99,522
More than two years, but not exceeding three years	**82,748**	2,422
More than three years, but not exceeding four years	**909**	1,215
More than four years, but not exceeding five years	**747**	852
More than five years	**–**	699
	683,137	392,581
Less: Amounts due within one year shown under current liabilities	**(426,009)**	(287,871)
Amounts due after one year shown under non-current liabilities	**257,128**	104,710

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

notes to the consolidated financial statements

For the year ended 31 December 2007

36. BANK BORROWINGS *(continued)*

The exposure of the Group's fixed-rate borrowings amounting to approximately HK$48,206,000 (2006: HK$20,000,000) and the contractual maturity dates are more than one year, but not exceeding two years.

The bank borrowings are secured by the assets of the Group as disclosed in Note 41.

	2007	2006
The range of effective interest rate on the Group's bank loans is as follows:		
Bank borrowings		
— Fixed	**5.7%**	5.4%
— Float	**5.0% - 8.0%**	5.6% - 7.8%

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

	Denominated in	
	2007	2006
	HK$'000	HK$'000
Denominated in - RMB	**7,177**	-
- USD	**130,769**	260,015
- Euro	**1,584**	-

notes to the consolidated financial statements

For the year ended 31 December 2007

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$68,071,000 and convertible option derivative of approximately 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. At 31 December 2007, the effective interest rate of the liability component is 8.6%. The conversion option derivative is measured at fair value with changes in fair value recognised in consolidated income statement.

notes to the consolidated financial statements

For the year ended 31 December 2007

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$'000	Revaluation of investment property HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2006	(336)	–	–	(336)
(Charge) Credit to consolidated income statement (Note 12)	(669)	–	1,005	336
At 31 December 2006	(1,005)	–	1,005	–
Exchange realignment	10	(99)	–	(89)
(Charge) credit to consolidated income statement (Note 12)	(37)	(3,312)	314	(3,035)
At 31 December 2007	(1,032)	(3,411)	1,319	(3,124)

notes to the consolidated financial statements

For the year ended 31 December 2007

38. DEFERRED TAXATION *(continued)*

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

	2007	2006
	HK$'000	HK$'000
Deferred tax assets	**287**	–
Deferred tax liabilities	**(3,411)**	–
	(3,124)	–

The Group has unused tax loss of approximately HK$99,741,000 (2006: HK$39,600,000) available for offset against future profits. A deferred tax asset has been recognised in respect of tax losses of approximately HK$5,203,000 (2006: HK$4,188,000). No deferred tax asset has been recognised in respect of the remaining tax loss of HK$94,538,000 (2006: HK$35,412,000) due to the unpredictability of future profit streams of the relevant subsidiaries. Included in unrecognised tax losses is loss of HK$20,471,000 that will expire in 2012 (2006: HK$5,439,000 will expire in 2011) and all other remaining tax losses may be carried forward indefinitely.

In addition, the Group has deductible accelerated tax depreciation of approximately HK$899,000 (2006: HK$966,000). A deferred tax assets of approximately HK$869,000 (2006: Nil) has been recognised in respect of the deductible temporary differences. No deferred tax asset has been recognised in relation to the remaining deducible temporary difference as, in the opinion of the directors, it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

notes to the consolidated financial statements

For the year ended 31 December 2007

39. SHARE CAPITAL

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

notes to the consolidated financial statements

For the year ended 31 December 2007

39. SHARE CAPITAL *(continued)*

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

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

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

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

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

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

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

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

notes to the consolidated financial statements

For the year ended 31 December 2007

40. MAJOR NON-CASH TRANSACTIONS

As disclosed in note 28, Well Metro issued certain shares to a minority shareholder at a consideration of approximately HK$6,689,000 (2006: Nil), which remain unsettled as at year ended 31 December 2007.

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.

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 (2006: HK$59,000).

41. 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.

	2007	2006
	HK$'000	HK$'000
Bank deposits	**48,099**	57,462
Available-for-sale investments	**6,044**	7,384
Property, plant and equipment	**145,636**	131,162
Prepaid lease payments	**31,471**	30,113
	231,250	226,121

notes to the consolidated financial statements

For the year ended 31 December 2007

42. OPERATING LEASE COMMITMENT

	2007 HK$'000	2006 HK$'000
The Group made rental payment for properties under operating lease as follows:		
minimum lease payments	**19,372**	121,192
contingent rental payment	**1,380**	-
	20,752	12,192

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:

	2007 HK$'000	2006 HK$'000
Within one year	**12,822**	5,127
In the second to fifth years	**13,405**	4,135
	26,227	9,262

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 expense in respect of certain retail shops which are dependent on the level of revenue achieved by these retail shops.

43. CAPITAL COMMITMENT

	2007 HK$'000	2006 HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**59,565**	643

Pursuant to the franchise agreement entered for the grant of franchise and distribution rights in the PRC as per disclosed in Note 19, the Group also committed to open 30 retail shops in the PRC within five years.

notes to the consolidated financial statements

For the year ended 31 December 2007

44. CONTINGENT LIABILITY

As at 31 December 2007, the Group had contingent liability of approximately HK$70,200,000 (2006: Nil) in respect a guarantee given to a bank in connection with bank facilities granted.

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

The Group also operates various defined contribution retirement benefits schemes (the "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 the Schemes. The assets of the 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 the Schemes.

During the year, the pension scheme contributions made by the Group were approximately HK$4,805,000 (2006: HK$3,297,000).

46. 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).

notes to the consolidated financial statements

For the year ended 31 December 2007

46. SHARE OPTION SCHEME *(continued)*

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

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

Details of specific categories of options are as follows:

Date of grant	Number of of options	Vesting period	Exercise period	Exercise Price
13.7.2006	3,800,000	Nil	13.7.2006 to 12.7.2009	HK$1.88
14.9.2006	860,000	Nil	14.9.2006 to 13.9.2009	HK$2.60
	1,290,000	14.9.2006 to 13.9.2007	14.9.2007 to 13.9.2009	HK$2.60
	2,150,000	14.9.2006 to 13.9.2008	14.9.2008 to 13.9.2009	HK$2.60
7.5.2007	6,000,000	Nil	7.5.2007 to 7.5.2010	HK$2.90
9.10.2007	840,000	Nil	9.10.2007 to 8.10.2010	HK$4.91
	435,000	9.10.2007 to 8.10.2008	9.10.2008 to 8.10.2010	HK$4.91
	725,000	9.10.2007 to 8.10.2009	9.10.2009 to 8.10.2010	HK$4.91

46. 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	Granted in 2006	Exercised in 2006	Outstanding at 31.12.2006	Granted during year	Exercised during year	Outstanding at 31.12.2007
13.7.2006	3,800,000	(2,800,000)	1,000,000	–	(1,000,000)	–
14.9.2006	4,300,000	–	4,300,000	–	(350,000)	3,950,000
7.5.2007	–	–	–	6,000,000	(4,800,000)	1,200,000
9.10.2007	–	–	–	2,000,000	–	2,000,000
	8,100,000	(2,800,000)	5,300,000	8,000,000	(6,150,000)	7,150,000
Exercisable at the end of the year			1,860,000			3,550,000
Weighted average exercise price	HK$2.26	HK$1.88	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$4.44 (2006: HK$2.39) and HK$4.53 (2006: HK$2.39), 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$4.91, respectively. The estimated fair values of the options granted on those dates are approximately HK$2,664,000 and HK$2,852,000 respectively.

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

notes to the consolidated financial statements

For the year ended 31 December 2007

46. SHARE OPTION SCHEME *(continued)*

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**
Share price at date of grant	HK$1.88	HK$2.50	HK$2.88	HK$4.77
Exercise price	HK$1.88	HK$2.60	HK$2.90	HK$4.90
Expected volatility (Note)	45%	45%	55.7%	61.5%
Expected life	Nil	1.5 to 2.5 years	3 years	1 year to 2.5 years
Risk-free rate	4.4%	3.8%	3.8% to 4.0%	3.7% to 3.8%
Expected dividend yield	3.0%	3.0%	4.0%	3.0%

Note: 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.

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$4,141,000 for the year ended 31 December 2007 (2006: HK$1,889,000) in relation to share options granted by the Company.

notes to the consolidated financial statements

For the year ended 31 December 2007

47. RELATED PARTY TRANSACTIONS

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

Name of related party	Nature of transactions	2007 HK$'000	2006 HK$'000
Morgan S.A. +	Sales of finished goods	–	38,222
Long Wise (Holdings) Limited +	Service fee paid	268	281
STF (China) Limited *	Interest income received	371	179
	Management fee income received	690	180
STF (Nanjing) Garment Limited *	Rental income received	125	–
Lotto (Nanjing) Garment Co. Ltd. *	Sales of finished goods	2,083	4,105
	Transfer of property, plant and equipment	–	888
	Rental income received	427	–
Lotto China Limited *	Sales of finished goods	–	155
	Management fee income received	690	–
H4T# (note)	Sale of apparel	201,710	–
	Sourcing income received	12,167	–
M.T.T. Yangzhou Garment Company Limited *	Sale of property, plant and equipment	83	–
	Management fee income received	896	–

notes to the consolidated financial statements

For the year ended 31 December 2007

47. RELATED PARTY TRANSACTIONS *(continued)*

During the year ended 31 December 2007, 恆寶利南京科技有限公司, a related company acts as a guarantor for bank borrowings of a subsidiary of the Company, Hembly Yangzhou Garment Manufacturing Co., Ltd, approximately RMB10,000,000 (2006: Nil).

+ The company is a minority shareholder of the Company's subsidiaries.

** The company is a jointly controlled entity of the Company*

 # A director of the Company has beneficial interest in this company.

Stonefly S.P.A., a joint venturer of a jointly controlled entity, STF China Limited ("STF China"), acts as a joint guarantor with a subsidiary of the Company, Hembly Garment Manufacturing Limited, for bank borrowings of approximately HK$22,000,000 (2006: HK$18,000,000) granted to STF China. As at 31 December 2007, the amount of such utilised by STF China was approximately HK$9,800,000 (2006: HK$10,424,000).

Pursuant to certain master licence agreements, Morgan S.A. 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 2007 and 2006.

Note: Details of the nature and terms of transactions with H4T please refer to the circular issued by the Company on 26 July 2007.

notes to the consolidated financial statements

For the year ended 31 December 2007

48. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	2007	2006
	HK$'000	HK$'000
Short-term benefits	**11,341**	8,081
Other long-term benefits	**158**	271
Share-based payments	**873**	615
	12,372	8,967

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

notes to the consolidated financial statements

For the year ended 31 December 2007

49. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 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		Principal activities
			2007	2006	
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
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

notes to the consolidated financial statements

For the year ended 31 December 2007

49. PRINCIPAL SUBSIDIARIES *(continued)*

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		Principal activities
			2007	2006	
Scienward (Nanjing) Garment Co., Ltd. 欣隆(南京)服裝有限公司 (note)	PRC	Registered capital US$150,000	**93.33%**	70%	Garment manufacturing and sourcing of garment
Scienward International Holdings Limited	Hong Kong	Ordinary shares HK$1,000,000	**93.33%**	70%	Wholesale of garment
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	Registered capital 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.

None of the subsidiaries had issued any debt securities at the end of the year except for Well Metro which has issued 1,500 convertible redeemable preference shares for HK$90,859,000 in which the Group has no interest.

financial summary

	For the year ended 31 December				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Revenue	262,209	291,997	427,781	611,689	**1,036,956**
Profit attributable to equity holders of the Company	25,394	30,950	58,194	78,128	**107,747**
ASSETS AND LIABILITIES					
Total assets	152,080	248,243	485,432	854,807	**1,641,147**
Total liabilities	(126,140)	(191,029)	(336,478)	(509,596)	**(1,058,587)**
	25,940	57,214	148,954	345,211	**582,560**
Equity attributable to equity holder of the Company	25,940	56,870	148,298	345,190	**574,907**
Minority interests	–	344	656	21	**7,653**
	25,940	57,214	148,954	345,211	**582,560**

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 2003, 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.

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