High Fashion International Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 608)

Promoting the
HOME OF CHINA SILK
to become the WORLD CAPITAL OF
LADIES APPAREL

ANNUAL REPORT 2008

Mission Statement

No.1 Silk Enterprise in the World

Contents

Chairman's Statement

The net profit attributable to shareholders for the year ended 31 December 2008 was HK$91 million. The Board of Directors recommended a final dividend of HK$0.03 per share. When taking into account of the interim dividend of HK$0.03 per share paid in October 2008, the total dividend payment for the year amounted to HK$0.06 per share. Net asset value per share is HK$4.8.

The year 2008 witnessed not only the worst financial crisis in living memory, but also a virtual meltdown of the financial systems in the US and European economies followed by a series of drastic measures to revive the world economy. Early in the year, we were still complaining about high inflation, soaring oil prices and so on. Without any forewarning, we were swamped with a substantial shrinkage in global trade that left many sectors of the economy with a very difficult business environment. The whole world is now inevitably undergoing a necessary consolidation on an unprecedented scale in terms of magnitude and depth.

In anticipation of the highly volatile global economic climate with accelerated correction taking place in the year ahead, we will strengthen our capability and solidify our resources in order to enable us to capture any opportunities that may arise from the turbulent market. Whilst we have taken aggressive, tailored and focused actions on product and service innovation, we will continue to be conscious of our risk management by adopting a prudent financial policy and maintaining high liquidity and low gearing levels. I am confident that we can respond swiftly to any changes in the market demand.

Despite the uncertainty and the unprecedented financial crisis that is not going to end soon, our solid fundamentals enable us to capitalize on our core strength in enhancing our competitiveness, profitability and sustainable development. The prestigious award of “National Advanced Technology Enterprise” to our largest subsidiary in the PRC recently granted by the State Council signifies its recognition of our dedication and contribution in the Chinese silk industry. This is a key part of our strategic priorities catering for our long term growth with focus on the PRC consumer market. We strongly believe that China will be the first country to engineer a recovery from the economic crisis and stronger and better than ever.

Our corporate mission as “No. 1 Silk Enterprise in the World” is within sight and based on our solid foundation we are well prepared for the challenges and opportunities in the years ahead.

I would like to take this opportunity to express my gratitude to the shareholders, customers, suppliers and my fellow Directors for their support. I would also like to thank our staff from various regions for their dedication and contribution in furthering our mission goal.

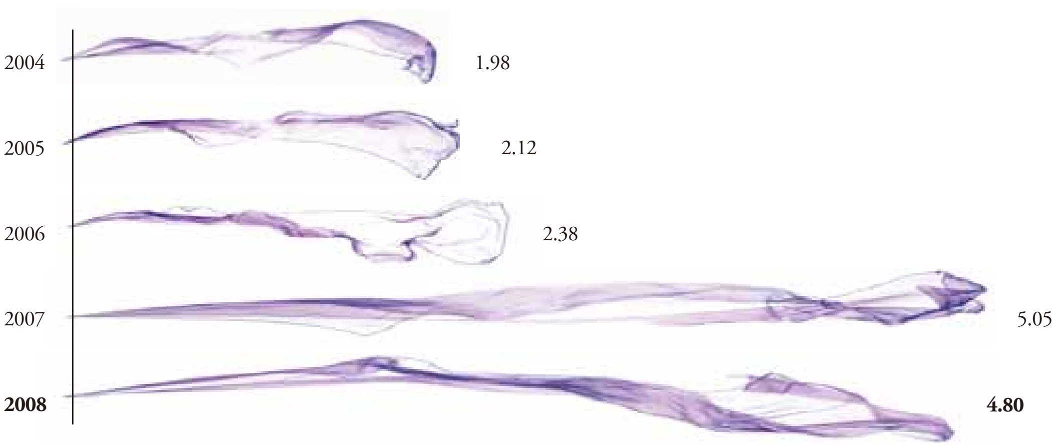
LAM FOO WAH
Chairman

Hong Kong, 7 April 2009

Financial Highlights

Turnover
(HK$ Million)

Net Asset Value Per Share
(HK$)



Management Discussion and Analysis

RESULTS

Revenue for the year ended 31 December 2008 increased to HK$2.6 billion. Net profit attributable to shareholders for the year ended 31 December 2008 was HK$91 million, compared with a reported profit of HK$567 million of last year. There were one-off gains on partial disposal of interests in a subsidiary and disposal of property in Liu Xia district, Hangzhou of HK$525 million in the last year profit. Basic earnings per share were HK$0.28. Net asset value per share was HK$4.8.

REVIEW OF OPERATIONS

The segmental information is as follows:–

	Revenue		Contribution	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
By principal activity:				
Manufacturing and trading	**2,325,193**	2,246,486	**196,447**	135,417
Retailing	**272,838**	308,295	**(31,035)**	(16,501)
	2,598,031	2,554,781	**165,412**	118,916
By geographical segments:				
USA	**1,501,270**	1,570,294	**86,686**	99,828
Europe	**442,110**	422,815	**15,976**	6,509
Greater China	**564,277**	492,390	**56,989**	4,850
Others	**90,374**	69,282	**5,761**	7,729
	2,598,031	2,554,781	**165,412**	118,916

Management Discussion and Analysis

The Group recorded a healthy growth in both revenue and operating profit of our core manufacturing and trading business when compared with last year. The profit for the Greater China of 2008 included the interest income from fixed and structured deposits and derivative financial instruments of HK$53 million.

Geographically, the United States continued to be the Group's major export market, accounting for 58% of revenue for the year of 2008. However, this represents a fall from 61% in 2007 and reflects our success in geographical diversification. Our brand business, August Silk accounted for 39% (2007: 32%) of our revenue in the USA. August Silk's operation reported profit for consecutive years.

Sales to the European market has increased to 17% of revenue for the year of 2008, a well-planned business strategy and a prudent approach to cushion the impact of global financial tsunami.

We will continue to intensify our business activities through aggressive marketing strategies to expand our business portfolio in both the USA and Europe.

The revenue of our retail group of Theme amounted to HK$273 million. The retailing business recorded a net operating loss of HK$31 million for the year of 2008 due to over-inventory problem and poor retail result in both PRC and Taiwan.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

The Group's total outstanding bank borrowings were increased to HK$1,185 million at the balance sheet date compared to HK$858 million as at 31 December 2007. The increase in bank borrowing was mainly due to our hedging facilities arrangement during the year. Our gearing ratio of non-current liabilities to shareholders' funds was only 14% at the balance sheet date. Current ratio has been maintained at a healthy level of 1.4.

The Group's total cash and bank balances were HK$1,004 million at the balance sheet date compared to HK$672 million as at 31 December 2007. Based on the comfortable cash position and the ample banking facilities available, the Group had a very strong working capital and liquidity to meet its operating needs.

The Group's receivables were mainly denominated in US dollar. Bank borrowings were denominated in US dollar, Hong Kong dollar and Renminbi. Since the Hong Kong dollar is pegged to the US dollar, the Group considers that its foreign exchange risk is minimal. The Group has taken conservative approach to handle foreign currency risk with adequate hedging reserve. The Group had no borrowings at fixed interest rates during the year.

The Group has no material contingent liabilities. Barring the pledge of trade receivables, bills receivables and bank deposits of certain subsidiaries of HK$81 million, there were no charges on the Group's assets.

TAX AUDIT

The Inland Revenue Department (IRD) initiated a tax audit on certain group companies in February 2006 for the years of assessment from 1999/2000 onwards. The management is of the opinion that, in all the years, adequate Hong Kong tax provisions were made on the Hong Kong sourced income. Since the tax audit is still at a fact-finding stage, the outcome of the tax audit cannot be readily ascertained. After consulting with professional advisers, the management is of the opinion that the existing provisions are adequate.

Management Discussion and Analysis

HUMAN RESOURCES

The total number of employees of the Group including jointly controlled entities as at the balance sheet date was about 11,000. Other than the competitive remuneration package offered to the employees, share options may also be granted to selected employees based on the Group's performance. No share options were granted to employees during the year.

CAPITAL EXPENDITURE

The Group entered into construction contracts to construct the production complex and living quarter complex at the Xiaoshan district of Hangzhou leading to the increase in the construction in progress and buildings by HK$177 million during the year. Except for the above, there was no material capital expenditure during the year.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. LAM Foo Wah, aged 60, is a co-founder of the Group. Mr. Lam is the Chairman and the Managing Director of the Company. He is also an executive director, the chairman and CEO of Theme International Holdings Limited. Mr. Lam oversees the Group's operations and is responsible for formulating the Group's overall policy and development. He has over 30 years of experience in the manufacturing and marketing of garments industry. Mr. Lam is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Ms. SO Siu Hang, Patricia, aged 50, joined the Group in 1990. Ms. So is an Executive Director of the Company and responsible for the Group's strategic direction and operational leadership of the core manufacturing unit. She is also an executive director of Theme International Holdings Limited. She holds a bachelor degree in commerce and finance from the University of Toronto and a master degree in business administration from York University in Canada. Prior to joining the Group, she worked for an international bank.

NON-EXECUTIVE DIRECTORS

Mr. CHAN Wah Tip, Michael, aged 56, joined the Group as Company Secretary in 1992. Mr. Chan is a Non-executive Director, a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Chan was an Independent Non-executive Director of the Company prior to his re-designation as a Non-executive Director of the Company in October 2004. He has been practising as a solicitor in Hong Kong for over 20 years. Mr. Chan is a partner of Wilkinson & Grist which is the legal adviser of the Company, a non-executive director of Shougang Concord Technology Holdings Limited and an independent non-executive director of L.K. Technology Holdings Limited.

Professor YEUNG Kwok Wing, aged 61, joined the Group in 2000. Professor Yeung is a Non-executive Director, a member of the Audit Committee and the Remuneration Committee of the Company. He was an independent non-executive director of Theme International Holdings Limited from 2000 to 2007. He is currently an executive director of Clothing Industry Training Authority ("CITA") in Hong Kong and an independent non-executive director of SRE Group Limited. He holds a PhD from the Queen's University of Belfast, Northern Ireland. Professor Yeung specializes in textile product development, quality assurance and management and serves as various honorary fellows and members of international associations of textile, dyers and colorists as well. He has a long and distinguished academic career and was associated with The Hong Kong Polytechnic University ("PolyU") for more than 30 years before joining CITA in June 2006. His administrative ability is also highly appreciated in PolyU when he was posted as its Vice President overseeing academic development from 2002 to 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WOO King Wai, aged 64, joined the Group in 1992. Mr. Woo is an Independent Non-executive Director, a member of the Audit Committee and Remuneration Committee of the Company. He holds a bachelor degree in architecture (Honours) from the University of California, Berkeley, the USA. He served as an executive member of the Hainan Political Consultative Conference, the People's Republic of China. He is a member of the Hong Kong Institute of Architects and the Royal Australian Institute of Architects.

Mr. WONG Shiu Hoi, Peter, aged 68, joined the Group in 2004. Mr. Wong is an Independent Non-executive Director, a member of the Audit Committee and the chairman of the Remuneration Committee of the Company. He holds a Master of Business Administration Degree from the University of East Asia, Macau (currently known as the "University of Macau"). Mr. Wong possesses over 30 years of experience in the financial services industry. He is the managing director and chief executive of Taifook Securities Group Limited and an independent non-executive director of Theme International Holdings Limited, the shares of these companies are listed on The Stock Exchange of Hong Kong Limited. Mr. Wong is the chairman of The Hong Kong Institute of Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Cont'd)*

Mr. LEUNG Hok Lim, *FCPA (Aust.), CPA (Macau), FCPA (Practising)*, aged 74, joined the Group in 2004. Mr. Leung is an Independent Non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. He obtained a fellowship with Hong Kong Institute of Certified Public Accountants in 1973. He is the founder and senior partner of PKF, Accountants and Business Advisers, a non-executive director of Beijing Hong Kong Exchange of Personnel Centre Limited and an independent non-executive director in a number of listed companies in Hong Kong, namely, Fujian Holdings Limited, Phoenix Satellite Television Holdings Limited, S E A Holdings Limited, Theme International Holdings Limited, Yangtzekiang Garment Limited and YGM Trading Limited.

SENIOR MANAGEMENT

Mr. CHAN Chun Man, aged 54, joined the Group in 1992. He is the Chief Operating Officer and Chief Financial Officer of August Silk Inc. and High Fashion International (USA) Inc. He is responsible for overseeing the Group's affairs in USA. He graduated from the University of Hong Kong with a bachelor degree in economics and pure mathematics. He is a member of The Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants.

Ms. CHAN Wai Wei, Cynthia, aged 36, joined the Group in 2000. Ms. Chan is the Company Secretary of the Company and has over 10 years' experience in accounting and auditing. Prior to joining the Group, she worked for an international accounting firm. She is a member of The Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries & Administrators.

Ms. Ellen DAWSON-BRUCKENTHAL, aged 52, is the Executive Vice President and Chief Merchandise Officer of August Silk Inc. She began her career in the Executive Training Program at Bloomingdales, a division of Federated Dept. Stores in 1978 where she consequently held the positions of Store Manager, Senior Buyer and Divisional Merchandise Manager. She is a graduate of Berkeley College and holds a degree in Fashion Marketing & Management. She joined August Silk Inc. in 1994.

Mr. FEI Jian Ming, aged 57, joined the Group in 1993. He is a director of High Fashion Garments Company Limited. He is the vice chairman and the CEO of High Fashion (China) Co., Ltd. He graduated from the Chinese Department of Zhejiang University. He also holds a master's degree in business administration and is a senior economist. He is a part-time professor of Zhejiang Sci-Tech University, as a master's teacher. He is a dean of Hangzhou Vocational & Technical College – High Fashion Womenwear Institute. He is the president of Hangzhou Silk Industry Association. He is the managing director of Hangzhou Silk & Women' Wear Exhibition Co., Ltd. and the vice-president of Hangzhou Foreign Investment Association. He has over 20 years' management experience in clothing industry.

Mr. Daniele FURLAN, aged 52, joined the Group in 2004 as a consultant. He is primarily responsible for the sales and marketing of fabrics and garments to European market and provides technical, organizational and industrial knowhow to the Group's factories. He is responsible for the product development of the Group and is the CEO of Advance Textile Centre of High Fashion (China) Co., Ltd., the supplier of finished fabrics and circular knit. He holds a diploma in business administration and a master in psychology from Padova University. Previously, he worked as a manager in the Benetton Group for more than 25 years and was responsible for various production units and sourcing divisions. In particular, he was responsible for the worldwide production licensing, fabric mill, garment, accessories and shoes outsourcing department of the Benetton Group. He was the managing director of Lanificio di Follina and also, for seven years, the managing director of Benetton (Far East) Limited in Hong Kong.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT *(Cont'd)*

Mr. Donald Michael HORNING, aged 62, joined the Group as vice president of High Fashion Garments, Inc. in 1999. Currently, he is the President and CEO of August Silk Inc. and High Fashion Garments, Inc. He has held senior management positions in the apparel industry for the past 30 years, including Jones Apparel Group, Bugle Boy, J.H. Collectibles, and David Crystal/Izod. He graduated from Syracuse University with a bachelor degree in business administration and attended the MBA program at The University of Chicago.

Ms. HU Ze Lin, aged 58, joined the Group in 1993. She is a director and the Deputy General Manager of High Fashion Silk (Zhejiang) Co. Ltd. and responsible for the production of that company. She attained matriculated education and is the economist in China. She has over 30 years of experience in textile industry and extensive experience in quality control in silk weaving production management.

Ms. LEUNG Suk Yin, Hilda, aged 52, has been with the Group since its inception. She is a director of High Fashion Garments Company Limited. Ms. Leung holds a diploma in business management from the Hong Kong Polytechnic University and the Hong Kong Management Association. She has over 30 years of experience in the sales, merchandising and production of garments.

Mr. LIN Ping, aged 48, joined the Group in 1993. He is a Director and the CEO of High Fashion Silk (Zhejiang) Co., Ltd. and responsible for the operation and administration. He serves as an executive member of China Silk Association and China Fashion Color Association, a deputy general director of China Fashion Color Association Silk Committee, an executive member of Zhejiang Textile Association, an executive member of Zhejiang Province Silk Association and the deputy chairman of Xinchang Chamber of Commerce. He attains EMBA education and is the senior economist in China. He has over 30 years' experience in textile industry and extensive experience in product design and development, silk weaving production and management.

Mr. LIN Yuet Man, Edwin, aged 48, joined the Group in 1997. He is the Finance Director of a subsidiary of the Company and has over 30 years' experience in accounting field. He is a member of The Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries & Administrators. He also holds a master degree in business administration.

Mr. Daniele PACHERA, aged 53, joined the Group in 2008. He is the Chief Operating Officer of Advanced Textile Centre of High Fashion (China) Co., Ltd. He holds a diploma in textile chemistry from the Como Silk Textile School and a master degree in silk textile management from the Polytechnic University in Milan (Italy). He has extensive experience in the luxury fashion sector (Ferragamo, Louis Vuitton) having worked for 14 years as senior manager for Mantero Seta Company in Como – Italy. His strong focus is the manufacturing of men's accessories, women's accessories and textile for garment and bags, with a specialization in quality upgrade and product development. He has over 25 years experience in silk textile industry.

Mr. PANG Kin Wah, Julian, aged 36, joined the Group in 2004. He is the Chief Financial Officer of Garment Centre of High Fashion (China) Co., Ltd. He is a member of the Hong Kong Institute of Certified Public Accountants and has Certified Internal Auditors (CIA) professional designation. He holds a degree of bachelor of Business Administration (Honours) in Accountancy from the Hong Kong Polytechnic University and a master degree in Business Administration from the Chinese University of Hong Kong. Prior to joining the Group, he worked for a financial institution and an international accounting firm.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT *(Cont'd)*

Ms. Donna POACH, aged 54, joined the Group in 2006. She is the Corporate Operations Director of the Group and is responsible for all related matters of corporate production reengineering, management production systems reorganization and merchandising flow efficiency optimization. Prior to joining the Group, she held senior management positions at various companies engaging in the import garment business, including J.G. Hook in Hong Kong and Korea and worldwide for Jones Apparel Group and Chaus.

Mr. RUAN Gen Yao, aged 48, joined the Group in 2001. He is the General Manager of Hangzhou Dalifu Silk Finishing Co., Ltd. and responsible for the operation of that company. He is the politician engineer in China and Labour Model of Hangzhou and the representation of the People's Congress of Tonglu, China. He has over 10 years' experience in silk finishing and dyeing industry and extensive experience in business management.

Mr. Nicholas E. G. WRIGHT, aged 54, joined the Group in 1993. He is the Managing Director of High Fashion (U.K.) Limited. He has over 20 years of experience in the clothing industry.

Mr. ZHANG Shan Pu, aged 53, joined the Group in 1999. He is the General Manager of Suzhou High Fashion Garments Co., Ltd. and responsible for the operation of that company. He graduated from an institution. Mr. Zhang has over 10 years of experience in silk knitting garments management and extensive experience in business management.

Report of the Directors

The directors present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 47 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2008 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 30 to 97.

An interim dividend of 3 HK cents per ordinary share was paid on 22 October 2008. The directors recommended the payment of a final dividend of 3 HK cents per ordinary share in respect of the year to shareholders on the register of members on 16 June 2009.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements and reclassified as appropriate, is set out on page 98. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 13 and 15 to the consolidated financial statements, respectively.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, is set out in note 35 to the consolidated financial statements.

SHARE OPTION SCHEMES

A summary of the share option schemes is set out in note 36 to the consolidated financial statements.

Report of the Directors

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the year, the Company repurchased 8,836,000 (2007: 6,366,000) ordinary shares of HK$0.10 each of the Company on The Stock Exchange of Hong Kong Limited as follows:

Month of the repurchases	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate consideration paid (including direct costs) HK$
April 2008	584,000	2.89	2.80	1,661,901
May 2008	860,000	2.93	2.85	2,494,801
June 2008	792,000	2.97	2.68	2,228,235
July 2008	1,806,000	2.70	2.47	4,714,394
August 2008	668,000	2.57	2.45	1,710,640
September 2008	530,000	1.98	1.78	991,270
October 2008	1,898,000	2.03	1.63	3,510,462
November 2008	872,000	1.65	1.47	1,351,726
December 2008	826,000	1.55	1.47	1,273,771
	8,836,000			19,937,200

The above repurchased shares were cancelled during the year and the issued share capital of the Company was reduced by the par value thereof. An amount equivalent to the par value of the shares cancelled has been transferred from the accumulated profits of the Company to the capital redemption reserve.

The repurchase of the Company's shares during the year was effected by the directors, pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by enhancing the net asset value and earnings per share of the Group.

Save as disclosed herein, the Company had not redeemed any of the Company's listed securities, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

Report of the Directors

DISTRIBUTABLE RESERVES

At 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the provisions of The Companies Act 1981 of Bermuda (as amended), amounted to HK$186,673,000, of which HK$9,547,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$283,007,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE DONATIONS

During the year, the Group made charitable donations totalling HK$3,256,000 (2007: HK$753,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 33.9% of the total sales for the year and sales to the largest customer included therein amounted to 12.1%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest customers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:
Mr. Lam Foo Wah
Ms. So Siu Hang, Patricia

Non-executive directors:
Mr. Chan Wah Tip, Michael
Professor Yeung Kwok Wing

Independent non-executive directors:
Mr. Woo King Wai
Mr. Wong Shiu Hoi, Peter
Mr. Leung Hok Lim

In accordance with bye-law 87 of the Company's Bye-laws, Mr. Woo King Wai, Ms. So Siu Hang, Patricia and Mr. Chan Wah Tip, Michael will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Report of the Directors

INDEPENDENCE CONFIRMATION

Pursuant to the Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), each independent non-executive director re-affirmed his independent status with the Company as at 31 December 2008, and the Company considered that they are independent.

DIRECTORS' EMOLUMENT

Details of the directors' emoluments for year 2008 are set out in the Remuneration Committee of the Corporate Governance Report on page 25, and particulars as required to be disclosed pursuant to Appendix 16 of the Listing Ruls are set out in note 8 to the consolidated financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 to 13 of the annual report.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a 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

Other than as disclosed under the section "Related Party Transactions" in note 44 to the consolidated financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2008 are disclosed in note 44 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2008, the long and short positions of the directors, chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been notified to the Company pursuant to the provision of Divisions 7 and 8 of Part XV of the SFO (including long and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) and have been recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which have been notified to the Company and the Stock Exchange pursuant to the model code for securities transactions by directors of listed issuers ("Model Code") contained in the Listing Rules, were as follows:

(i) Long Positions in the Company's Shares

Name of Directors	Notes	Capacity	Nature of interests	Number of ordinary shares held	Percentage of the Company's issued capital (Note 3)
Lam Foo Wah	1, 2	Other interest	Other	143,719,986	44.92%
So Siu Hang, Patricia		Beneficial owner	Personal	2,824,309	0.88%

(ii) Long Position in Shares of Associated Corporation

Name of Director	Note	Name of associated corporation	Relationship with the Company	Capacity	Number of ordinary shares held	Percentage of the associated corporation's issued capital
Lam Foo Wah	4	High Fashion Knitters Limited	Subsidiary	Interest of controlled corporations	5,339,431	35.60%

Notes:

1. Mr. Lam Foo Wah is deemed to have interests in 108,802,419 ordinary shares which are beneficially owned by Hinton Company Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.

2. Mr. Lam Foo Wah is deemed to have interests in 34,917,567 ordinary shares which are beneficially owned by High Fashion Charitable Foundation Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.

3. The issued share capital of the Company is 319,979,550 shares as at 31 December 2008.

4. These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Cont'd)*

Save as disclosed above, as at 31 December 2008, none of the directors, chief executives of the Company nor their associates had or was deemed to have any long or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which has been notified to the Company and the Stock Exchange pursuant to the above mentioned Model Code of the Listing Rules.

Furthermore, save as disclosed in the "Share Option Schemes" section above, at no time during the year ended 31 December 2008 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the following substantial shareholders, other than directors and chief executives of the Company, had the long and short positions in the shares and underlying shares of the Company which have been disclosed to the Company pursuant to the provision of Divisions 2 and 3 of Part XV of the SFO, have been recorded in the register kept by the Company pursuant to section 336 of SFO:

Long Positions in the Company's Ordinary Shares:

Name of Shareholders	Notes	Capacity	Number of ordinary shares held	Percentage of the Company's issued share capital (note 3)
Hinton Company Limited	1	Beneficial owner	108,802,419	34.00%
High Fashion Charitable Foundation Limited	1	Beneficial owner	34,917,567	10.91%
Dresdner VPV N.V. (Formerly known as Veer Palthe Voute NV) ("DVPV")	2	Investment manager	34,531,400	10.79%
Dresdner Bank Aktiengesellschaft ("DBAG")	2	Interest of controlled corporations	34,531,400	10.79%
Allianz SE ("ASE")	2	Interest of controlled corporations	34,531,400	10.79%

Notes:

1. Such interests have been disclosed as interests of Mr. Lam Foo Wah in the "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above.

2. The 34,531,400 ordinary shares are held directly by DVPV, of which is indirectly controlled by ASE and DBAG. Therefore, ASE and DBAG are deemed to have indirect interests in the 34,531,400 ordinary shares.

3. The issued share capital of the Company is 319,979,550 shares as at 31 December 2008.

Save as disclosed above, as at 31 December 2008, no person, other than the directors or chief executives of the Company, whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered a long or short position in the shares, underlying shares and debentures of the Company that was required to be recorded pursuant to section 336 of the SFO.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, as at the date of this report, there is a sufficiency of public float of the Company's securities as required under the Listing Rules.

POST BALANCE SHEET EVENT

Details of the post balance sheet event is set out in note 46 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions and to certain extent of the recommended best practices set out in Appendix 14 Code on Corporate Governance Practices of the Listing Rules throughout the accounting year ended 31 December 2008, except code provision A.1.1 on the regular board meeting held and code provision A.2.1 on the separate roles of the chairman and CEO.

Details of the Company's corporate governance report are set out on pages 21 to 27.

AUDITOR

The financial statements for the year ended 31 December 2008 were audited by Deloitte Touche Tohmatsu.

A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

LAM FOO WAH
Chairman & Managing Director

Hong Kong, 7 April 2009

Corporate Governance Report

The Board of Directors ("Board") and the management of the Company are committed to establishment and maintaining of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management and enhancing shareholders' value. The corporate governance principles of the Company emphasise a quality Board, sound internal controls, and accountability and transparency to all shareholders.

The Company has complied with all the code provisions and to certain extent of the recommended best practices set out in Appendix 14 Code on Corporate Governance Practices (the "CG Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting year ended 31 December 2008, except code provision A.1.1 on the regular board meeting held and code provision on A.2.1 on the separate roles of the chairman and chief executive officer ("CEO") as described below.

BOARD COMPOSITION AND BOARD PRACTICES

The Board of the Company is collectively responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value.

At the year end, the Board of the Company consisted of a total of seven directors, comprising two Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. One of the three Independent Non-executive Directors has appropriate professional qualifications, or accounting or related financial management expertise. The names of directors and their positions are as follows:

Name of Director	Position
Executive directors:	
Mr. Lam Foo Wah	Chairman and Managing Director
Ms. So Siu Hang, Patricia	Executive Director
Non-executive directors:	
Mr. Chan Wah Tip, Michael	Non-executive Director
Professor Yeung Kwok Wing	Non-executive Director
Mr. Woo King Wai	Independent Non-executive Director
Mr. Wong Shiu Hoi, Peter	Independent Non-executive Director
Mr. Leung Hok Lim	Independent Non-executive Director

More than one-third member in the Board is Independent Non-executive Director. During the financial year, each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent.

All directors (including Non-executive Directors) are subject to retirement by rotation once every three years and are subject to re-election in accordance with the Company's Bye-laws and the CG Code. In accordance with the Company's Bye-Laws, newly appointed director(s) is/are required to retire and can offer themselves for re-election at the first general meeting following their appointment.

In 2008, it deviates from the code provision A.1.1 of the CG Code as the Board meetings held three times a year. The Board believes that such arrangements were adequate to cover all major issues arising throughout the year ended 31 December 2008. In any event all Directors were available for consultation by management from time to time during the year. The attendance of individual director to the Board meeting is set out on page 22 of this report.

BOARD COMPOSITION AND BOARD PRACTICES *(Cont'd)*

Review of the Board composition is made regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out on pages 10 to 13.

In order to ensure that the Board is able to fulfill its responsibilities, it has established and delegated specific responsibilities to the Audit Committee and Remuneration Committee. The details of the committees are stipulated on pages 24 to 25 of this report.

The Company provides at least 14 days' notices of every Board meeting to all Directors to give them an opportunity to attend. Board papers are circulated not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings.

During the financial year, the Qualified Accountant and the Company Secretary attended all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. Directors had full access to information on the Group and were able to seek independent professional advice whenever deemed necessary by the Directors. The Company Secretary prepared minutes and kept records of matters discussed and decisions resolved at all Board meetings.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed.

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

BOARD AND COMMITTEES ATTENDANCE

Details of Directors' attendance at the Board and respective Board Committees Meetings held in 2008 are as follows:

	Meetings Attended/held		
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Executive directors:			
Mr. Lam Foo Wah	3/3	N/A	N/A
Ms. So Siu Hang, Patricia	3/3	N/A	N/A
Non-executive directors:			
Mr. Chan Wah Tip, Michael	3/3	2/2	1/1
Professor Yeung Kwok Wing	3/3	2/2	1/1
Independent Non-executive directors:			
Mr. Woo King Wai	2/3	2/2	1/1
Mr. Wong Shiu Hoi, Peter	3/3	2/2	1/1
Mr. Leung Hok Lim	3/3	2/2	1/1

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the Chairman of the Board ("Chairman") and the Managing Director are held and performed by Mr. Lam Foo Wah, the same individual. Although it deviates from the code provision A.2.1 of the CG Code, the Board considers that the function of the Chairman and the Managing Director in the Company's strategic planning and development process are overlapping and it may not be for the benefit of the Company to have separate individuals occupying these two offices given the conditions of the Group and its stage of development.

The Board, led by the Chairman, is responsible for the approval and monitoring of the Group's overall strategies and policies; evaluating the performance of the Group; and oversight of management. One of the important roles of the Chairman is to provide leadership to the Board to ensure that the Board acts in the best interests of the Group. The Chairman shall ensure that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. All Directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary.

Management is responsible for the day-to-day operations of the Group under the leadership of the Chairman who is also the Managing Director. The Managing Director, working with the other executive directors and the executive management team of each business division, is responsible for managing the businesses of the Group, including implementation of strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group. All Directors have made full and active contribution to the affairs of the Board and the Board always acts in the best interests of the Group.

With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. Apart from the regular Board meetings, the Chairman may hold meetings with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions.

Confirmation has been sought from all Directors and they have complied with the required standard set out in the Model Code for the year ended 31 December 2008.

The Company has established the written guidelines on no less exacting terms than the Model Code relating to securities transactions for the relevant employees.

Corporate Governance Report

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the consolidated financial statements of the Group.

With the assistance of the finance department which is under the supervision of the Qualified Accountant of the Company, the Directors ensure the preparation of the consolidated financial statements of the Group is in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the publication of the financial statements of the Group is in a timely manner.

The report of the Auditor of the Company about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 28 to 29.

AUDITOR'S REMUNERATION

The Group's external auditor is Deloitte Touche Tohmatsu. For the year ended 31 December 2008, the Auditor of the Company received approximately HK$4,435,000 for audit service and HK$1,256,000 for tax and other services.

AUDIT COMMITTEE

During the financial year, the audit committee of the Company (the "Audit Committee") comprises two Non-executive Directors namely, Mr. Chan Wah Tip, Michael and Professor Yeung Kwok Wing and three Independent Non-executive Directors, namely, Mr. Leung Hok Lim (the Chairman of the Audit Committee), Mr. Woo King Wai and Mr. Wong Shiu Hoi, Peter.

In April 2009, the Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2008.

The Company has complied with the requirement of the Listing Rules in establishing an audit committee comprising at least three members who must be Non-executive Directors only, and the majority thereof must be Independent Non-executive Directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Audit Committee adopted the terms of reference with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and in accordance with the requirements of the CG Code. The terms of reference of the Audit Committee are posted on the Company's website.

AUDIT COMMITTEE *(Cont'd)*

The main duties of the Audit Committee are set out below:

(i) to recommend to the Board on the appointment, reappointment and removal of the external auditor, and any questions of resignation or dismissal of the auditor;

(ii) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

(iii) to develop and implement policy on the engagement of external auditor to supply non-audit services;

(iv) to monitor integrity of financial statements of the Company and the Company's annual and interim reports and accounts, and to review significant financial reporting judgments contained in such reports;

(v) to review the Company's financial controls, internal control and risk management systems; and

(vi) to review the Group's financial and accounting policies and practices.

The Audit Committee held two regular meetings during the year to review and provide supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the Auditor of the Company. The members' attendance to the Committee meeting is listed out on page 22.

Minutes drafted by the secretary of Audit Committee are circulated to members of the Audit Committee within a reasonable time after each meeting.

No member of the Audit Committee is a former partner of the existing auditing firm of the Company during the one year after he/she ceases to be a partner of the auditing firm.

REMUNERATION COMMITTEE

The Company established a remuneration committee of the Company ("Remuneration Committee") under the board in August 2005. During the year, the Remuneration Committee comprises Mr. Wong Shiu Hoi, Peter (Chairman of the Remuneration Committee), Mr. Chan Wah Tip, Michael, Professor Yeung Kwok Wing, Mr. Woo King Wai and Mr. Leung Hok Lim. A regular meeting of Remuneration Committee has been convened in April 2008 and members' attendance to the Remuneration Committee meeting is listed out on page 22.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and reviewing the specific remuneration packages of all Executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time. Terms of reference of the Remuneration Committee which have been adopted by the Board are posted on the Company's website.

The Remuneration Committee shall consult the Chairman about their proposals relating to remuneration package and other human resources issues of the directors and senior management of the Company. The emoluments of directors and senior management are based on the skill, knowledge and involvement in the Company's affairs of each director and senior management and are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. In addition, details of the Company's share option are set out in note 36 to the consolidated financial statements.

Corporate Governance Report

NOMINATION OF DIRECTORS

The Company has not established any nomination committee and would not consider establishing a nomination committee owing to the small size of the Board. The Chairman of the Board is responsible for making recommendations to the Board on the appointment of directors, evaluation of board composition and the management of board succession. The Board carries out the process of selecting and recommending candidates for directorship including the consideration of referrals and engagement of external recruitment professionals when necessary.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board conducts reviews of the effectiveness of the internal control system for the year ended 31 December 2008 covering all material controls, including financial, operational and compliance controls and risk management functions by considering reviews performed by the Audit Committee, executive management and both the group internal audit department and external auditor. The Group's system of internal control comprises a defined management structure with limits of authority, is designed to help the achievement of business objectives, safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations.

The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

The criteria for the Board to assess the effectiveness of the system of internal control are listed below:

(i) Organisational Structure

An organisational structure with operating policies and procedures, lines of responsibility and delegated authority has been already established.

(ii) Authority and Control

The relevant Executive Directors and senior management are delegated with respective levels of authorities with regard to key corporate strategy and policy and contractual commitments. The Board is responsible for handling and dissemination of price sensitive information through discussion and delegation of authority to the Company Secretary.

(iii) Budgetary Control and Financial Reporting

Budgets are prepared annually by the senior management and are subject to review and approval of the Executive Directors prior to being adopted. There are procedures for the appraisal, review and approval of major capital and recurrent expenditure. Results of operations against budgets are reported regularly to the Executive Directors. Proper controls are in place for the recording of complete, accurate and timely accounting and management information. Regular reviews and audits are carried out to ensure that the preparation of consolidated financial statements is carried out in accordance with generally accepted accounting principles, the Group's accounting policies and applicable laws and regulations.

(iv) Systems and Procedures

Systems and procedures are set to identify, measure, manage and control risks including business, compliance, operational, financial and information services risks that may have an impact on the Group and each principal division. Exposure to these risks is monitored by the Executive Directors and the management of the respective principal divisions.

Corporate Governance Report

INTERNAL CONTROL *(Cont'd)*

(v) Internal Audit

The group internal audit department performs independent reviews of the controls and risks identified to provide reasonable assurance to management of the Company and principal divisions and the Audit Committee that controls have been set in place and adequately addressed.

The group internal audit department monitors compliance with policies and procedures as well as the effectiveness of internal control structures across the Company and the Group. To preserve the independence of the group internal audit department, the group internal audit department reports directly to the Audit Committee. The group internal audit department plans its internal audit schedules annually in consultation with, but independent of, management of the Group and the principal divisions. In addition to its agreed annual schedule of work, the group internal audit department conducts other special reviews as required. As a key criterion of assessing the effectiveness of the internal control system, the Board and the Audit Committee actively monitor the number and seriousness of findings raised by the group internal audit department and also the corrective actions taken by relevant departments.

According to the 2008 internal audit reports, the Group's internal control system is functioning effectively and there was no significant weakness found in the course of the audits carried out during the year. The Board, through the Audit Committee and the internal audit function, has reviewed the effectiveness of the Group's internal control systems and is of the view that there are no suspected frauds, irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations that cause the Board to believe that the systems of internal control are ineffective or inadequate. The Board is satisfied that the Company and the Group have fully complied with the code provisions on internal control as set forth in the CG Code for the year ended 31 December 2008.

COMMUNICATION WITH SHAREHOLDERS

At 2008 Annual General Meeting ("2008 AGM"), a separate resolution was proposed by the Chairman of that meeting in respect of each separate issue, including the re-election of directors. The Chairman of the Board, and Chairmen of the Audit and Remuneration Committees, or in absence of the chairman of such committees, any member from the respective committees, attended the 2008 AGM to address shareholders queries.

The rights of shareholders to demand a poll and the procedures for a poll voting on resolutions at shareholders' meetings are contained in the bye-laws of the Company. Details of such rights and procedures are included in the circulars dated 29 April 2008 in relation to shareholders' meeting(s).

The Company establishes different communication channels with shareholders and investors: (i) shareholders can receive printed copies of corporate information, (ii) the general meeting provides a forum for shareholders to raise comments and exchange views with the Board, (iii) the Company's website offers communication channel between the Company and its shareholders and investors; and (iv) the Company's Sub-Registrar and Transfer Agent in Hong Kong serve the shareholders respecting all share registration matters.

Independent Auditor's Report

TO THE SHAREHOLDERS OF HIGH FASHION INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of High Fashion International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 97, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the 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 and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 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 Hong Kong Institute of Certified Public Accountants. 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.

Independent Auditor's Report

TO THE SHAREHOLDERS OF HIGH FASHION INTERNATIONAL LIMITED *(Cont'd)*

(Incorporated in Bermuda with limited liability)

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 7 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Revenue	5	**2,598,031**	2,554,781
Cost of sales		**(1,874,324)**	(1,838,757)
Gross profit		**723,707**	716,024
Other income		**144,063**	37,889
(Loss) gain on disposal of property, plant and equipment and prepaid lease payments		**(2,510)**	359,769
Gain on partial disposal of shares in a subsidiary		**–**	279,392
Administrative expenses		**(364,529)**	(334,871)
Distribution and selling expenses		**(329,659)**	(295,676)
Finance costs	7	**(68,299)**	(32,168)
Change in fair value of derivative financial instruments		**(5,660)**	(17,506)
Share of losses of jointly controlled entities		**(209)**	(161)
Profit before taxation		**96,904**	712,692
Income tax expense	9	**(18,551)**	(157,315)
Profit for the year	10	**78,353**	555,377
Attributable to			
Equity holders of the Company		**90,635**	566,616
Minority interests		**(12,282)**	(11,239)
		78,353	555,377
Earnings per share	12		
Basic		**HK$0.28**	HK$1.70
Diluted		**HK$0.28**	HK$1.70

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	13	**911,227**	733,011
Prepaid lease payments	14	**78,443**	76,207
Deposit for acquisition of land use right	14	**18,148**	17,172
Investment properties	15	**102,700**	85,920
Goodwill	16	**28,215**	23,808
Intangible assets	17	**1,890**	11,094
Investments in associates	19	**–**	–
Investments in jointly controlled entities	20	**19,862**	19,537
Available-for-sale investments	21	**675**	675
Deferred tax assets	33	**7,101**	6,347
		1,168,261	973,771
Current assets			
Inventories	22	**371,815**	407,756
Trade receivables	23	**296,917**	328,431
Bills receivable	23	**71,447**	59,997
Prepaid lease payments	14	**1,509**	1,441
Deposits, prepayments and other receivables	24	**399,131**	508,446
Amounts due from jointly controlled entities	25	**17,713**	10,014
Tax recoverable		**49,141**	32,382
Derivative hedging instruments	26	**98,862**	317,254
Structured deposits	27	**226,753**	–
Short-term deposits	28	**376,704**	–
Pledged bank deposits	40	**142**	108
Bank balances and cash	28	**400,454**	671,676
		2,310,588	2,337,505
Current liabilities			
Trade payables	29	**263,565**	296,077
Bills payable	29	**3,807**	4,468
Other payables and accruals		**155,926**	176,707
Amounts due to jointly controlled entities	25	**25,630**	–
Amount due to an associate	25	**595**	597
Tax payable		**171,393**	116,663
Derivative financial instruments	30	**23,166**	17,506
Derivative hedging instruments	26	**–**	1,400
Obligations under finance leases	31	**88**	337
Bank borrowings	32	**1,007,578**	374,167
Bank overdrafts	32	**447**	599
		1,652,195	988,521
Net current assets		**658,393**	1,348,984
Total assets less current liabilities		**1,826,654**	2,322,755

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current liabilities			
Obligations under finance leases	31	**81**	231
Bank borrowings	32	**177,000**	483,000
Deferred tax liabilities	33	**37,546**	89,564
Provision for long service payments	34	**1,770**	929
		216,397	573,724
		1,610,257	1,749,031
Capital and reserves			
Share capital	35	**31,998**	32,881
Share premium and reserves		**1,512,996**	1,626,511
Equity attributable to equity holders of the Company		**1,544,994**	1,659,392
Minority interests		**65,263**	89,639
Total equity		**1,610,257**	1,749,031

The consolidated financial statements on pages 30 to 97 were approved and authorised for issue by the Board of Directors on 7 April 2009 and are signed on its behalf by:

Lam Foo Wah
Director

So Siu Hang, Patricia
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company											
	Share capital HK$'000	**Share premium account** HK$'000	**Translation reserve** HK$'000	**Reserve funds** HK$'000 (Note i)	**Property revaluation reserve** HK$'000 (Note ii)	**Capital redemption reserve** HK$'000	**Hedging reserve** HK$'000	**Other reserve** HK$'000 (Note iii)	**Accu-mulated profits** HK$'000	**Total** HK$'000	**Minority interests** HK$'000	**Total** HK$'000
At 1 January 2007	33,416	296,041	30,425	5,733	–	4,714	6,513	39,853	372,193	788,888	6,019	794,907
Increase on fair value changes on cash flow hedges	–	–	–	–	–	–	339,003	–	–	339,003	–	339,003
Exchange difference arising on translation	–	–	75,676	–	–	–	–	–	–	75,676	1,556	77,232
Share of reserve of jointly controlled entities	–	–	1,827	–	–	–	–	–	–	1,827	–	1,827
Surplus on revaluation of properties	–	–	–	–	11,766	–	–	–	–	11,766	–	11,766
Deferred taxation arising on surplus on revaluation of properties	–	–	–	–	(2,059)	–	–	–	–	(2,059)	–	(2,059)
Net income recognised directly in equity	–	–	77,503	–	9,707	–	339,003	–	–	426,213	1,556	427,769
Profit for the year	–	–	–	–	–	–	–	–	566,616	566,616	(11,239)	555,377
Transfer to profit or loss on cash flow hedges	–	–	–	–	–	–	(29,662)	–	–	(29,662)	–	(29,662)
Total recognised income for the year	–	–	77,503	–	9,707	–	309,341	–	566,616	963,167	(9,683)	953,484
Decrease in minority interest as a result of acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	(17,170)	(17,170)
Increase in minority interest as a result of conversion of convertible notes granted from a subsidiary	–	–	–	–	–	–	–	–	–	–	15,272	15,272
Contribution from minority interests	–	–	–	–	–	–	–	–	–	–	85,914	85,914
Increase in minority interest as a result of partial disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	9,287	9,287
Transfer to reserve funds	–	–	–	8,368	–	–	–	–	(8,368)	–	–	–
Exercise of share options	102	413	–	–	–	–	–	–	–	515	–	515
Repurchase of shares, including direct costs	(637)	(5,632)	–	–	–	637	–	–	(14,436)	(20,068)	–	(20,068)
Final dividend paid	–	–	–	–	–	–	–	–	(23,390)	(23,390)	–	(23,390)
Interim and special dividends paid	–	–	–	–	–	–	–	–	(49,720)	(49,720)	–	(49,720)
	(535)	(5,219)	–	8,368	–	637	–	–	(95,914)	(92,663)	93,303	640
At 31 December 2007	32,881	290,822	107,928	14,101	9,707	5,351	315,854	39,853	842,895	1,659,392	89,639	1,749,031

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company											
	Share capital HK$'000	Share premium account HK$'000	Translation reserve HK$'000	Reserve funds HK$'000 (Note i)	Property revaluation reserve HK$'000 (Note ii)	Capital redemption reserve HK$'000	Hedging reserve HK$'000	Other reserve HK$'000 (Note iii)	Accumulated profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
Decrease on fair value changes on cash flow hedges	–	–	–	–	–	–	(125,779)	–	–	(125,779)	1,570	(124,209)
Exchange difference arising on translation	–	–	80,649	–	–	–	–	–	–	80,649	1,068	81,717
Share of reserve of jointly controlled entities	–	–	1,078	–	–	–	–	–	–	1,078	–	1,078
Surplus on revaluation of properties	–	–	–	–	11,700	–	–	–	–	11,700	–	11,700
Deferred taxation arising on surplus on revaluation of properties	–	–	–	–	(1,930)	–	–	–	–	(1,930)	–	(1,930)
Effect of change in tax rate	–	–	–	–	117	–	–	–	–	117	–	117
Net income and expense recognised directly in equity	–	–	81,727	–	9,887	–	(125,779)	–	–	(34,165)	2,638	(31,527)
Profit for the year	–	–	–	–	–	–	–	–	90,635	90,635	(12,282)	78,353
Transfer to profit or loss on cash flow hedges	–	–	–	–	–	–	(92,125)	–	–	(92,125)	(658)	(92,783)
Total recognised income and expense for the year	–	–	81,727	–	9,887	–	(217,904)	–	90,635	(35,655)	(10,302)	(45,957)
Decrease in minority interest as a result of acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	(14,074)	(14,074)
Transfer to reserve funds	–	–	–	4,589	–	–	–	–	(4,589)	–	–	–
Repurchase of shares, including direct costs	(883)	(7,815)	–	–	–	883	–	–	(12,122)	(19,937)	–	(19,937)
Final and special dividends paid	–	–	–	–	–	–	–	–	(49,100)	(49,100)	–	(49,100)
Interim dividend paid	–	–	–	–	–	–	–	–	(9,706)	(9,706)	–	(9,706)
	(883)	(7,815)	–	4,589	–	883	–	–	(75,517)	(78,743)	(14,074)	(92,817)
At 31 December 2008	**31,998**	**283,007**	**189,655**	**18,690**	**19,594**	**6,234**	**97,950**	**39,853**	**858,013**	**1,544,994**	**65,263**	**1,610,257**

Notes:

(i) As stipulated by the relevant The People's Republic of China ("PRC") laws and regulations, before distribution of the profit each year, the subsidiaries established in the PRC with limited liability shall set aside 10% of their profit to the statutory surplus reserve. The statutory surplus reserve can only be used upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or increase capital.

(ii) Property revaluation reserve represents the revaluation reserve arising upon the transfer of owner-occupied property and respective prepaid lease payments to investment property, net of deferred tax. The property revaluation reserve will be transferred to accumulated profits when the relevant properties are disposed of.

(iii) Other reserve represents capitalisation of accumulated profits of a subsidiary as capital contribution to another subsidiary.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**96,904**	712,692
Adjustments for:		
Allowance for inventory obsolescence	**4,444**	15,929
Allowance for bad and doubtful debts	**11,232**	7,933
Amortisation of trademarks	**1,690**	1,687
Amortisation of prepaid lease payments	**2,692**	2,746
Finance costs	**68,299**	32,168
Share of losses of jointly controlled entities	**209**	161
Interest income	**(42,775)**	(5,585)
Increase in fair value of investment properties	**(2,020)**	(4,450)
Depreciation of property, plant and equipment	**81,200**	54,317
Loss (gain) on disposal of property, plant and equipment and prepaid lease payments	**2,510**	(359,769)
Change in fair value of derivative financial instruments	**5,660**	17,506
Gain on partial disposal of shares in a subsidiary	**–**	(279,392)
Gain on disposal of a jointly controlled entity	**(1,456)**	–
Impairment loss on amount due from a jointly controlled entity	**3,326**	–
Impairment loss recognised in respect of goodwill	**1,800**	–
Impairment loss recognised in respect of an intangible asset	**7,500**	–
Impairment loss recognised in respect of property, plant and equipment	**10,418**	1,400
Operating cash flows before movements in working capital	**251,633**	197,343
Decrease (increase) in inventories	**31,497**	(17,275)
Decrease in trade receivables	**20,282**	10,710
Increase in bills receivable	**(11,450)**	(18,039)
Decrease (increase) in deposits, prepayments and other receivables	**2,935**	(5,196)
(Decrease) increase in trade payables	**(32,512)**	46,364
(Decrease) increase in bills payable	**(661)**	442
Decrease in other payables and accruals	**(20,781)**	(52,547)
Increase in amounts due to jointly controlled entities	**7,917**	–
Provision for long service payments	**1,049**	–
Long service payments utilised	**(208)**	(386)
Cash generated from operations	**249,701**	161,416
Hong Kong Profits Tax paid	**(22,427)**	(19,295)
Overseas taxes paid	**(12,721)**	(4,535)
NET CASH FROM OPERATING ACTIVITIES	**214,553**	137,586
INVESTING ACTIVITIES		
Increase in short-term deposits	**(376,704)**	–
Purchases of property, plant and equipment	**(246,404)**	(312,657)
Increase in structured deposits	**(222,727)**	–
Advance to an independent third party	**(56,818)**	(53,763)

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
Acquisition of additional interests in subsidiaries	**(20,281)**	(33,442)
Advances to jointly controlled entities	**(11,025)**	(19,248)
Increase in pledged bank deposits	**(34)**	–
Proceeds on disposal of property, plant and equipment and prepaid lease payments	**185,864**	76,766
Interest received	**18,637**	5,585
Proceeds on disposal of a jointly controlled entity	**2,000**	–
Proceeds on partial disposal of shares in a subsidiary	**–**	303,202
Deposit on land use rights	**–**	(17,172)
Prepaid lease payments	**–**	(3,368)
Capital contribution to a jointly-controlled entity	**–**	(2,000)
NET CASH USED IN INVESTING ACTIVITIES	**(727,492)**	(56,097)
FINANCING ACTIVITIES		
New bank loans raised	**1,608,791**	827,863
Advances from jointly controlled entities	**17,713**	–
Repayment of bank borrowings	**(1,278,681)**	(432,927)
Interest paid	**(60,903)**	(25,723)
Dividends paid	**(58,806)**	(73,110)
Payment for repurchase of shares	**(19,937)**	(20,068)
Bank charges paid	**(7,365)**	(6,404)
(Decrease) increase in trust receipt loans	**(2,699)**	1,917
Repayments of obligations under finance leases	**(399)**	(436)
Interest paid on obligations under finance leases	**(31)**	(41)
Decrease in amount due to an associate	**(2)**	(3)
Contribution from minority shareholders	**–**	85,914
Exercise of share options	**–**	515
NET CASH FROM FINANCING ACTIVITIES	**197,681**	357,497
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(315,258)**	438,986
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**671,077**	218,075
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET	**44,188**	14,016
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**400,007**	671,077
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**400,454**	671,676
Bank overdrafts	**(447)**	(599)
	400,007	671,077

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed on page 99 to the annual report.

The functional currency of the Company is Renminbi ("RMB"), the currency of the primary economic environment in which the Company and its major subsidiaries operate. For the purpose of the consolidated financial statements and conveniences of the financial statements users, the results and financial position of the Group are presented in Hong Kong dollars ("HK$").

The principal activities of the Group are the manufacture, retailing and trading of garments.

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

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions
HK(IFRIC) – INT 12	Service concession arrangements
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of the new HKFRSs had no material effect on how the Group's results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior year adjustment has been required.

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

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

HKFRSs (Amendments)	Improvements to HKFRSs [1]
HKAS 1 (Revised)	Presentation of financial statements [2]
HKAS 23 (Revised)	Borrowing costs [2]
HKAS 27 (Revised)	Consolidated and separate financial statements [3]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation [2]
HKAS 39 (Amendment)	Eligible hedged items [3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate [2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [2]
HKFRS 3 (Revised)	Business combinations [3]
HKFRS 7 (Amendment)	Improving disclosures about financial instruments [2]
HKFRS 8	Operating segments [2]
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives [4]
HK(IFRIC) – INT 13	Customer loyalty programmes [5]
HK(IFRIC) – INT 15	Agreements for the construction of real estate [2]
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation [6]
HK(IFRIC) – INT 17	Distribution of non-cash assets to owners [3]
HK(IFRIC) – INT 18	Transfer of assets from customers [7]

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefit 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 into 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.

Goodwill on acquisition of additional interests in a subsidiary is calculated as the difference between the consideration paid for the additional interests and the book value of the net assets of the subsidiary attributable to the additional interests acquired.

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 acquisition of business or additional interest in a business is presented separately in the consolidated balance sheet.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Goodwill *(Cont'd)*

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 consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

Interests in associates

An associate is an entity over which the Group has a significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

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 results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Jointly controlled entities *(Cont'd)*

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivables for goods sold in the normal course of business, net of discount and sales related tax.

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

Interest income from a financial asset 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 to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or for administrative purposes, 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 taking into account of their estimated residual value, using the straight-line method.

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.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated profits.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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 cost 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 (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

Investment properties are properties held to earn rentals and 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 at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in the profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. 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 item is derecognised.

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Contingent rents are calculated with reference to the turnover generated by respective shops using pre-determined formulae. The contingent rents are recognised in the consolidated income statement in the periods when the relevant turnover is recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Leasing *(Cont'd)*

Leasehold land and building

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (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 exchanges 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. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operations, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the profit or loss for the period.

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. HK$) 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. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in the profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period 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 substantially enacted at the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Taxation *(Cont'd)*

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base 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, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences 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 profits 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 to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on a straight-line basis over their estimated useful lives.

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

Inventories

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

Retirement benefit costs

Payments to Mandatory Provident Fund Scheme and state-managed retirement benefits scheme are charged as expenses when employees have rendered service entitling them to the contributions.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instruments. 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 the profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets

The Group's financial assets include loans and receivables, financial assets at fair value through profit or loss ("FVTPL") 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.

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 paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for loans and receivables.

Financial assets at FVTPL

Financial assets classified as financial assets at FVTPL when it is designated as at FVTPL on initial recognition and it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

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 and bills receivables, deposits and other receivables, amounts due from jointly controlled entities, short-term deposits, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are neither designated nor classified as loans and receivables or financial assets at FVTPL. The Group classified financial instruments that the Group acquired for long term investments as available-for-sale financial assets.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Impairment of financial assets

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

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 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 assets, such as trade receivables, assets 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, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

The carrying amounts of the financial assets are reduced by the impairment loss directly for all financial assets with the exception of trade 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 is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the 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 loss 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

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 Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

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.

Financial liabilities at FVTPL

Financial liabilities are classified as financial liabilities at FVTPL when it is a derivative that is not designated and effective as hedging instruments and designated as at FVTPL upon initial recognition.

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL, including cross currency and interest rate swap, cross currency swaps and interest rate swaps, are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities including trade and bills payable, other payables, amounts due to jointly controlled entities, amount due to an associate, obligations under finance leases, bank overdrafts and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Upon repurchase of the Company's own shares, the respective shares are subsequently cancelled upon repurchase and accordingly, the issued share capital of the Company is diminished by the nominal value thereof. The premium payable on repurchase was charged against the Company's share premium account. An amount equal to the nominal value of the shares repurchased is transferred from accumulated profits to capital redemption reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

The Group designates certain derivatives as cash flow hedges, which are hedges of highly probable forecast intragroup transactions for foreign currency risk exposure and hedges of interest rate risk associated with the Group's floating rate bank borrowings. For hedge of foreign currency exposure, the hedged item represents highly probable forecast intragroup transactions which are denominated in a currency other than the functional currency of respective group entity entering into the transactions and the foreign currency risk under the hedging arrangement will affect consolidated income statement. For hedges of interest rate risk, the hedged item is the Group's floating rate bank borrowing and the risk being hedged represents the volatility in interest payments resulted from changes in interest rates.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity (hedging reserve). The gain or loss relating to the ineffective portion, if any, is recognised immediately in profit or loss as other expenses or other income.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Derecognition

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

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 or payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Equity-settled share-based payment transactions

Share options granted to employees on or before 7 November 2002

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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 an income immediately.

4. KEY SOURCES OF ESTIMATION 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 estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

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 2008, the carrying amount of goodwill is HK$28,215,000 (2007: HK$23,808,000). Details of the recoverable amount calculation are disclosed in note 18.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Cont'd)*

Fair values of derivative financial instruments and derivative hedging instruments

As described in notes 26 and 30, the directors of the Company use their judgment in selecting an appropriate valuation technique for derivative financial instruments and derivative hedging instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Derivative financial instruments and derivative hedging instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. As at 31 December 2008, the carrying amount of derivative financial instruments and derivative hedging instruments are HK$23,166,000 (2007: HK$17,506,000) and HK$98,862,000 (2007: HK$317,254,000) respectively.

Allowance for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are not suitable for use in current production. The management estimates the net realisable value for raw materials, work in progress and finished goods based primarily on the latest invoice prices and current market conditions. However, given the competitiveness of the industry, these prices may subsequently be affected. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for these items. As at 31 December 2008, the carrying amount of inventories is HK$371,815,000 (2007: HK$407,756,000).

Income taxes

The Hong Kong Inland Revenue Department ("IRD") initiated a tax audit on certain group companies for the years of assessment 1999/2000 onwards. Since the tax audit is still at a fact-finding stage with different views being exchanged with the IRD, the outcome of the tax audit cannot be readily ascertained with any degree of accuracy. In cases where the tax charged by IRD are different from the estimated amounts, a material tax charge may arise (see note 9 for details).

5. REVENUE

Revenue represents the amount received and receivable for goods sold by the Group, net of discount and sales related tax. An analysis of the Group's revenue is as follows:

	2008 **HK$'000**	2007 HK$'000
Manufacture and trading of garments	**2,325,193**	2,246,486
Retailing of garments	**272,838**	308,295
	2,598,031	2,554,781

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into two operating divisions – (i) manufacture and trading of garments and (ii) retailing of garments. These divisions are the basis on which the Group reports its primary segment information.

Consolidated income statement for the year ended 31 December 2008

	Manufacture and trading of garments HK$'000	Retailing of garments HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE				
External sales	**2,325,193**	**272,838**	**–**	**2,598,031**
Inter-segment sales (Note)	**–**	**28,169**	**(28,169)**	**–**
Total	**2,325,193**	**301,007**	**(28,169)**	**2,598,031**
RESULT				
Segment result	**340,621**	**19,703**	**–**	**360,324**
Unallocated other income				**144,063**
Unallocated corporate expenses				**(338,975)**
Share of loss of jointly controlled entities	**(209)**	**–**	**–**	**(209)**
Finance costs				**(68,299)**
Profit before taxation				**96,904**
Income tax expense				**(18,551)**
Profit for the year				**78,353**

Note: Inter-segment sales are charged at agreed terms set out in the subcontracting agreement entered into between group companies.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

(a) Business segments *(Cont'd)*

Consolidated balance sheet as at 31 December 2008

	Manufacture and trading of garments HK$'000	Retailing of garments HK$'000	Consolidated HK$'000
ASSETS			
Segment assets	2,056,256	221,348	2,277,604
Investments in jointly controlled entities	19,862	–	19,862
Unallocated corporate assets			1,181,383
Consolidated total assets			3,478,849
LIABILITIES			
Segment liabilities	363,557	61,511	425,068
Unallocated corporate liabilities			1,443,524
Consolidated total liabilities			1,868,592

Other information for the year ended 31 December 2008

	Manufacture and trading of garments HK$'000	Retailing of garments HK$'000	Consolidated HK$'000
Additions to property, plant and equipment	227,566	18,838	246,404
Addition to goodwill	–	6,207	6,207
Depreciation of property, plant and equipment	64,013	17,187	81,200
Amortisation of trademarks	690	1,000	1,690
Amortisation of prepaid lease payments	2,118	574	2,692
Allowance for bad and doubtful debts	10,581	651	11,232
Allowance for (write back) inventory obsolescence*	7,564	(3,120)	4,444
Impairment loss on amount due from a jointly controlled entity	–	3,326	3,326
Impairment loss recognised in respect of goodwill	–	1,800	1,800
Impairment loss recognised in respect of property, plant and equipment	10,418	–	10,418
Impairment loss recongised in respect of an intangible asset	–	7,500	7,500
Loss on disposal of property, plant and equipment	2,066	444	2,510

* Obsolete inventory allowance was written back when the relevant inventory was sold.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

(a) Business segments *(Cont'd)*

Consolidated income statement for the year ended 31 December 2007

	Manufacture and trading of garments HK$'000	Retailing of garments HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE				
External sales	2,246,486	308,295	–	2,554,781
Inter-segment sales (Note)	–	8,643	(8,643)	–
Total	2,246,486	316,938	(8,643)	2,554,781
RESULT				
Segment result	349,802	53,040	–	402,842
Unallocated other income				37,889
Unallocated corporate expenses				(333,471)
Share of profit (loss) of jointly controlled entities	1,295	(1,456)		(161)
Gain (loss) on disposal of property, plant and equipment and prepaid lease payments	361,172	(1,403)		359,769
Gain on partial disposal of shares in a subsidiary				279,392
Impairment loss recognised in respect of property, plant and equipment				(1,400)
Finance costs				(32,168)
Profit before taxation				712,692
Income tax expense				(157,315)
Profit for the year				555,377

Note: Inter-segment sales were charged at agreed terms set out in the subcontracting agreement entered into between group companies.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

(a) Business segments *(Cont'd)*

Consolidated balance sheet as at 31 December 2007

	Manufacture and trading of garments HK$'000	Retailing of garments HK$'000	Consolidated HK$'000
ASSETS			
Segment assets	2,244,822	239,795	2,484,617
Investments in jointly controlled entities	18,993	544	19,537
Unallocated corporate assets			807,122
Consolidated total assets			3,311,276
LIABILITIES			
Segment liabilities	428,190	68,897	497,087
Unallocated corporate liabilities			1,065,158
Consolidated total liabilities			1,562,245

Other information for the year ended 31 December 2007

	Manufacture and trading of garments HK$'000	Retailing of garments HK$'000	Consolidated HK$'000
Additions to property, plant and equipment	295,361	17,674	313,035
Addition to goodwill	–	22,008	22,008
Amortisation of trademarks	687	1,000	1,687
Amortisation of prepaid lease payments	2,228	518	2,746
Depreciation of property, plant and equipment	42,698	11,619	54,317
Allowance for bad and doubtful debts	7,016	917	7,933
Allowance for inventory obsolescence	7,805	8,124	15,929

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

(b) Geographical segments

The Group's operations are located in the United States of America ("USA"), Europe, Greater China and other areas.

The following table provides an analysis of the Group's sale by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market 2008 HK$'000	2007 HK$'000
USA	**1,501,270**	1,570,294
Europe	**442,110**	422,815
Greater China	**564,277**	492,390
Others	**90,374**	69,282
	2,598,031	2,554,781

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

	Carrying amount of segment assets 2008 HK$'000	2007 HK$'000	Additions to property, plant and equipment and goodwill 2008 HK$'000	2007 HK$'000
USA	**146,067**	122,770	**1,075**	216
Europe	**8,156**	17,562	**342**	339
Greater China	**2,122,210**	2,341,232	**232,355**	316,199
Others	**1,171**	3,053	**18,839**	18,289
	2,277,604	2,484,617	**252,611**	335,043

7. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest on:		
Bank loans and overdrafts wholly repayable within five years	**60,903**	25,723
Finance leases	**31**	41
Bank charges	**7,365**	6,404
	68,299	32,168

8. DIRECTORS' EMOLUMENTS AND EMPLOYEE'S EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of seven (2007: nine) directors were as follows:

		Other emoluments			
	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Performance related incentive payments HK$'000	Total emoluments HK$'000
2008					
Lam Foo Wah	80	5,058	12	–	5,150
So Siu Hang, Patricia	80	2,328	12	320	2,740
Chan Wah Tip, Michael	120	–	–	–	120
Woo King Wai	120	–	–	–	120
Wong Shiu Hoi, Peter	240	–	–	–	240
Leung Hok Lim	240	–	–	–	240
Yeung Kwok Wing	120	–	–	–	120
Total for 2008	**1,000**	**7,386**	**24**	**320**	**8,730**

		Other emoluments			
	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Performance related incentive payments HK$'000	Total emoluments HK$'000
2007					
Lam Foo Wah	80	5,058	12	4,610	9,760
Hui Yip Wing	47	1,593	7	–	1,647
Wong Shing Loong, Raymond	26	1,153	4	–	1,183
So Siu Hang, Patricia	80	2,298	12	2,820	5,210
Chan Wah Tip, Michael	120	–	–	–	120
Woo King Wai	120	–	–	–	120
Wong Shiu Hoi, Peter	240	–	–	–	240
Leung Hok Lim	221	–	–	–	221
Yeung Kwok Wing	120	–	–	–	120
Total for 2007	1,054	10,102	35	7,430	18,621

The performance related incentive payment is determined by reference to the individual performance of the directors and approved by the Remuneration Committee.

During both years, no emoluments were paid by the Group to the directors as compensation for loss of office or as a discretionary bonus or an inducement to join or upon joining the Group. None of the directors has waived any emoluments in both years.

8. DIRECTORS' EMOLUMENTS AND EMPLOYEE'S EMOLUMENTS *(Cont'd)*

Employee's emoluments

Of the five individuals with the highest emoluments in the Group, two (2007: three) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining three (2007: two) individuals were as follows:

	2008 HK$'000	2007 HK$'000
Salaries and other benefits	**4,358**	2,891
Retirement benefits scheme contributions	**36**	24
Performance related incentive payments	**825**	1,175
	5,219	4,090

Their emoluments were within the following bands:

	2008 No. of employees	2007 No. of employees
HK$1,500,001 to HK$2,000,000	**3**	1
HK$2,000,001 to HK$2,500,000	**–**	1
	3	2

9. INCOME TAX EXPENSE

	2008 HK$'000	2007 HK$'000
Current tax charge:		
Hong Kong	**1,546**	4,276
Other jurisdictions	**58,855**	45,716
Under(over)provision in prior years:		
Hong Kong	**13,971**	32,455
Other jurisdictions	**(1,253)**	(1,668)
	73,119	80,779
Deferred taxation (Note 33):		
Current year	**(22,184)**	77,078
Attributable to a change in tax rate	**(32,384)**	(542)
	(54,568)	76,536
	18,551	157,315

9. INCOME TAX EXPENSE *(Cont'd)*

The IRD initiated a tax audit on certain group companies for the years of assessment from 1999/2000 onwards. As a matter of IRD's practice, the IRD has issued estimated additional assessments to these group companies for the years of assessment 1999/2000, 2000/2001, 2001/2002 and 2002/2003. During the course of the tax audit, there may be a possibility that estimated additional assessments for subsequent years be issued by the IRD to these group companies.

Up to 31 December 2008, the Group has purchased tax reserve certificates of approximately HK$48,476,000 (2007: HK$32,382,000) for conditional standover order of objection against the notices of estimated additional assessment for the years of assessments 1999/2000, 2000/2001 and 2001/2002 and the amount is included in tax recoverable.

Since the tax audit is still at a fact-finding stage with different views being exchanged with the IRD, the outcome of the tax audit cannot be readily ascertained with any degree of accuracy. The management has in the current year followed the same basis for making provision as adopted in prior years. In the opinion of the directors, the provisions so made are adequate for the purpose mentioned above.

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

Up to 31 December 2007, the PRC Enterprise Income Tax was calculated based on the statutory rate of 33% of the assessable profit for subsidiaries established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC, except for certain PRC subsidiaries enjoyed preferential income tax as set out below.

(i) Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction in the applicable tax rate for the next three years.

(ii) Pursuant to the relevant laws and regulations in the PRC, High Fashion (China) Co. Ltd., a principal subsidiary of the Company was entitled to a preferential income tax rate of 26.4% and subject to 50% reduction. Accordingly, High Fashion (China) Co., Ltd was subject to income tax rate of 13.2%.

On 16 March 2007, the PRC government promulgated the Law of the PRC on Enterprise Income Tax (the "New Law"). On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulations, the Enterprise Income Tax rate has changed to 25% from 1 January 2008.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprises Income Tax (Guofa 2007 No. 39), the tax rate of the Company's PRC subsidiaries that previously enjoyed the tax preferential treatment as set out in (i) above is 12.5%.

9. INCOME TAX EXPENSE *(Cont'd)*

In December 2008, High Fashion (China) Co. Ltd. has been recognised as an advanced technology enterprise in the PRC and it is subject to income tax rate of 15% during the period from year 2008 to year 2010.

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

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

	2008 **HK$'000**	2007 HK$'000
Profit before taxation	**96,904**	712,692
Tax at the income tax rate of 16.5% (2007: 17.5%)	**15,989**	124,721
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(695)**	1,173
Effect of tax exemptions granted to PRC subsidiaries	**(1,465)**	(1,520)
Tax effect of share of results of jointly controlled entities	**35**	28
Tax effect of income not taxable for tax purpose	**(5,894)**	(49,947)
Tax effect of expenses not deductible for tax purpose	**13,758**	58,808
Tax effect of tax losses not recognised	**19,727**	2,358
Withholding tax on undistributed earnings of subsidiaries (Note 33)	**2,158**	–
Utilisation of tax losses previously not recognised	**(5,484)**	(8,524)
Underprovision in prior years	**12,718**	30,787
Effect on deferred taxation resulting from a change in tax rate	**(32,384)**	(542)
Others	**88**	(27)
Taxation for the year	**18,551**	157,315

10. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

	2008 HK$'000	2007 HK$'000
Cost of inventories recognised as expenses	**1,903,710**	1,837,411
Depreciation and amortisation		
Owned assets	**80,868**	54,024
Leased assets	**332**	293
Amortisation of trademarks (included in distribution and selling expenses)	**1,690**	1,687
Amortisation of prepaid lease payments	**2,692**	2,746
	85,582	58,750
Allowance for bad and doubtful debts (included in administrative expenses)	**11,232**	7,933
Allowance for inventory obsolescence (included in cost of sales)	**4,444**	15,929
Impairment loss recognised (included in administrative expenses)		
– goodwill	**1,800**	–
– an intangible asset	**7,500**	–
– property, plant and equipment	**10,418**	1,400
– amount due from a jointly controlled entity	**3,326**	–
Auditor's remuneration	**4,435**	4,400
Minimum lease payments in respect of land and buildings	**48,317**	90,225
Contingent rents (Note)	**36,268**	16,853
Staff costs (including directors' emoluments)		
Wages, salaries and bonuses	**364,507**	319,336
Retirement benefits scheme contributions	**10,244**	14,082
	374,751	333,418
Net foreign exchange (gain) loss	**(28,270)**	6,601
Gain on derivative hedging instruments transferred from equity (included in cost of sales)	**(65,327)**	(29,662)
Loss on derivative hedging instruments transferred from equity (included in finance costs)	**2,317**	–
Gain on derivative hedging instruments in respect of discontinued cash flow hedges (included in other income)	**(29,773)**	–
Gain on disposal of a jointly controlled entity	**(1,456)**	–
Gross rental income from investment properties	**(10,164)**	(10,334)
Less: Outgoings for investment properties rented out	**1,415**	1,213
Net rental income	**(8,749)**	(9,121)
Sub-letting rental income (included in distribution and selling expenses)	**(837)**	(4,006)
Investment income earned on loans and receivables		
– bank interest income	**(31,088)**	(5,585)
– interest income on other receivables	**(6,184)**	–
	(37,272)	(5,585)
Investment income earned on financial assets or financial liabilities designated at FVTPL		
– income from derivative financial instruments	**(16,287)**	–
– interest income from structured deposits	**(5,503)**	–
	(21,790)	–
Increase in fair value of investment properties	**(2,020)**	(4,450)

Note: The contingent rents are determined based on a certain percentage of the gross sales of the relevant shops when the sales meet certain specified level.

10. PROFIT FOR THE YEAR *(Cont'd)*

During the year ended 31 December 2007, an amount of HK$361,000,000 was included in gain on disposal of property, plant and equipment and prepaid lease payments which was attributable to the gain on disposal of land located at Liuxia Street, Hangzhou, in an auction arranged by Hangzhou Municipal Government.

During the year ended 31 December 2007, the Group disposed of partial equity interests in Theme International Holdings Limited ("Theme") in several batches through the Stock Exchange and recognised a gain on partial disposal of shares in a subsidiary of HK$279,392,000.

11. DIVIDENDS

	2008 HK$'000	2007 HK$'000
Dividend recognised as distribution and paid during the year:		
Interim dividend – 3 HK cents per ordinary share (2007: 5 HK cents)	**9,706**	16,573
Special interim dividend – nil (2007: 10 HK cents per ordinary share)	**–**	33,147
Final dividend – 5 HK cents per ordinary share (2007: 7 HK cents)	**16,367**	23,319
Special final dividend – 10 HK cents per ordinary share (2007: nil)	**32,733**	–
Additional final dividend paid arising from shares issued under share option scheme	**–**	71
	58,806	73,110

The final dividend of 3 HK cents (2007: 5 HK cents and a special dividend of 10 HK cents) per ordinary share has been proposed by the directors and is subject to the approval by the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to equity holders of the Company for the year ended 31 December 2008 together with the comparative figures for 2007 are based on the following data:

	2008 HK$'000	2007 HK$'000
Profit for the purpose of basic and diluted earnings per share attributable to equity holders of the Company	**90,635**	566,616

	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	**325,613,918**	332,372,541
Effect of dilutive potential ordinary shares assuming exercise of share options	**–**	273,713
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**325,613,918**	332,646,254

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings (Hong Kong) HK$'000	Buildings (elsewhere) HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Plant and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
COST								
At 1 January 2007	19,900	258,891	78,101	23,007	296,859	108,979	30,623	816,360
Additions	–	4,808	243,434	1,034	39,287	22,873	1,599	313,035
Transfers	–	99,215	(116,293)	–	14,397	2,681	–	–
Transfer to investment properties	(1,742)	–	–	–	–	–	–	(1,742)
Disposals	–	(62,725)	–	(2,149)	(30,824)	(11,906)	(3,358)	(110,962)
Exchange realignment	–	20,729	10,811	844	19,401	4,140	1,047	56,972
At 31 December 2007	18,158	320,918	216,053	22,736	339,120	126,767	29,911	1,073,663
Additions	–	13,419	187,803	3,111	11,799	27,293	2,979	246,404
Transfers	–	223,491	(375,088)	50,958	96,566	4,073	–	–
Disposals	–	–	–	(6,660)	(14,079)	(10,550)	(2,671)	(33,960)
Transfer to investment properties	(3,569)	–	–	–	–	–	–	(3,569)
Exchange realignment	–	16,583	2,955	1,614	17,339	3,302	289	42,082
At 31 December 2008	**14,589**	**574,411**	**31,723**	**71,759**	**450,745**	**150,885**	**30,508**	**1,324,620**
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At 1 January 2007	5,332	49,489	–	10,059	164,030	77,746	19,069	325,725
Provided for the year	376	9,816	–	4,061	22,638	13,987	3,439	54,317
Impairment loss recognised in the consolidated income statement	–	1,400	–	–	–	–	–	1,400
Eliminated on disposals	–	(18,364)	–	(542)	(24,418)	(9,657)	(3,155)	(56,136)
Transfer to investment properties	(540)	–	–	–	–	–	–	(540)
Exchange realignment	–	3,803	–	296	8,648	2,357	782	15,886
At 31 December 2007	5,168	46,144	–	13,874	170,898	84,433	20,135	340,652
Provided for the year	310	18,021	–	3,841	32,019	22,724	4,285	81,200
Impairment loss recognised in the consolidated income statement	–	–	–	–	10,418	–	–	10,418
Eliminated on disposals	–	–	–	(6,660)	(10,829)	(9,348)	(2,059)	(28,896)
Transfer to investment properties	(1,494)	–	–	–	–	–	–	(1,494)
Exchange realignment	–	2,381	–	165	6,305	2,149	513	11,513
At 31 December 2008	**3,984**	**66,546**	**–**	**11,220**	**208,811**	**99,958**	**22,874**	**413,393**
CARRYING VALUES								
At 31 December 2008	**10,605**	**507,865**	**31,723**	**60,539**	**241,934**	**50,927**	**7,634**	**911,227**
At 31 December 2007	12,990	274,774	216,053	8,862	168,222	42,334	9,776	733,011

13. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

	2008 HK$'000	2007 HK$'000
Buildings in Hong Kong:		
Medium-term leases	**10,605**	12,990
Buildings outside Hong Kong:		
Long leases	**22,474**	21,710
Medium-term leases	**485,391**	253,064
	507,865	274,774
	518,470	287,764

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis at the following rates per annum:

Buildings	2% to 5%
Leasehold improvements	The shorter of lease terms and 5 years
Plant and equipment	9% to 20%
Furniture and fixtures	9% to 25%
Motor vehicles	9% to 25%

During the year, the directors conducted a review of the Group's manufacturing assets and determined that a number of those assets were impaired, due to technical obsolescence. Accordingly, an impairment loss of HK$10,418,000 has been recognised in respect of plant and equipment.

The carrying value of the motor vehicles includes an amount of HK$615,000 (2007: HK$1,085,000) in respect of assets held under finance leases.

14. PREPAID LEASE PAYMENTS AND DEPOSIT FOR ACQUISITION OF LAND USE RIGHT

	2008 HK$'000	2007 HK$'000
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in Hong Kong	**4,282**	5,383
Medium-term leasehold land outside Hong Kong	**39,389**	37,391
Long leases land outside Hong Kong	**36,281**	34,874
	79,952	77,648
Analysed for reporting purposes as:		
Non-current asset	**78,443**	76,207
Current asset	**1,509**	1,441
	79,952	77,648

On 6 December 2007, High Fashion (China) Co., Ltd, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party ("Vendor") to acquire a land use right in Xiao Shan, the PRC. Pursuant to the aforesaid sale and purchase agreement, approximately RMB 15,970,000 (equivalent to approximately HK$18,148,000 (2007: HK$17,172,000)) was paid to the Vendor during the year ended 31 December 2007. At the balance sheet date, the Group is still in the progress of obtaining the land use right.

15. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2007	68,000
Transfer from property, plant and equipment and prepaid lease payments	13,470
Increase in fair value recognised in the consolidated income statement	4,450
At 31 December 2007	85,920
Transfer from property, plant and equipment and prepaid lease payments	14,760
Increase in fair value recognised in the consolidated income statement	2,020
At 31 December 2008	**102,700**

The Group's investment properties are situated in Hong Kong and are held under medium-term leases.

The fair values of the Group's investment properties at 31 December 2008 and 2007 have been arrived at on the basis of a valuation carried out by Centaline Surveyors Ltd., independent qualified professional valuers not connected with the Group. Centaline Surveyors Ltd. are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

16. GOODWILL

	HK$'000
COST LESS IMPAIRMENT	
At 1 January 2007	1,800
Arising on conversion of convertible notes issued by Theme	15,272
Arising on acquisition of additional interests in Theme	6,736
At 31 December 2007	23,808
Arising on acquisition of additional interest in Theme	6,207
Impairment loss recognised in the consolidated income statement	(1,800)
At 31 December 2008	**28,215**

Pursuant to the terms and conditions of the convertible notes ("Convertible Notes") issued by Theme solely to Navigation Limited, a wholly owned subsidiary of the Company, the Convertible Notes were due to be mandatory converted into ordinary shares of Theme on 30 August 2005. Such mandatory conversion was automatically postponed until such time as Theme is satisfied that, at least 25% of its shares are held by the public as required under the Rules governing the Listing of Securities on the Stock Exchange.

During the year ended 31 December 2007, the Group (i) disposed of 1,666,724,000 ordinary shares of Theme (representing 23.87% of the total issued share capital of Theme), (ii) converted Convertible Notes issued by Theme and recognised goodwill of HK$15,272,000, and (iii) acquired 460,877,995 ordinary shares of Theme (representing 5.14% of the total issued share capital of Theme) which resulting in a goodwill of HK$6,736,000. After the above transactions, the Group's interest in Theme was reduced from 75% to 56.27%.

During the year ended 31 December 2008, the Group acquired additional interests of 6.91% in Theme, which resulting in a goodwill of HK$6,207,000. As at 31 December 2008, the Group's interest in Theme increased to 63.18%.

Particulars regarding impairment testing on goodwill are disclosed in note 18 below.

17. INTANGIBLE ASSETS

	Trademarks HK$'000
COST	
At 1 January 2007	16,873
Exchange realignment	44
At 31 December 2007	16,917
Exchange realignment	(44)
At 31 December 2008	**16,873**
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2007	4,108
Provided for the year	1,687
Exchange realignment	28
At 31 December 2007	5,823
Provided for the year	1,690
Impairment loss recognised in the consolidated income statement (Note)	7,500
Exchange realignment	(30)
At 31 December 2008	**14,983**
CARRYING VALUES	
At 31 December 2008	**1,890**
At 31 December 2007	11,094

Note: During the year, the directors assessed the recoverable amount of the trademarks and recognised an impairment of HK$7,500,000 in respect of the trademark of CSLR. Particulars regarding impairment testing on this trademark are disclosed in note 18 below.

The trademarks are amortised over 10 years.

18. IMPAIRMENT TESTING ON GOODWILL AND TRADEMARKS

For the purposes of impairment testing, goodwill and certain trademarks set out in notes 16 and 17 have been allocated to two identifiable retail business lines which categorised by the management of the Company as "TIHL" and "CSLR". The carrying amounts of goodwill and trademarks (net of impairment losses) as at balance sheet date allocated to these cash generating units are as follows:

	Goodwill		Trademarks	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
TIHL	**28,215**	22,008	**–**	–
CSLR	**–**	1,800	**–**	8,500
	28,215	23,808	**–**	8,500

TIHL:

The recoverable amount is determined based on value-in-use calculations. For the purpose of assessing impairment, these calculations use cash flow projections based on five years financial budgets approved by the management.

CSLR:

The recoverable amount is determined based on value-in-use calculations. For the purpose of assessing impairment, these calculations use cash flow projections based on financial budgets approved by the management covering a five-year period with growth rate used to extrapolate cash flow projections beyond the period covered by budgets for 5 years ranging from 0% to 2% per annum.

Key assumptions used in value-in-use calculations for the cash generating units of TIHL and CSLR include: (i) gross margin ranging from 50% to 70% (2007: 50% to 70%) per annum; (ii) growth rate used within five years cashflow projection ranging from 2% to 5% (2007: 2% to 5%) per annum; (iii) growth rate used to extrapolate cash flow projections beyond the period covered by the five-year budgets ranging from 0% to 2% (2007: 0% to 2%) per annum; and (iv) discount rate of 13% for TIHL and 12% for CSLR (2007: 12%) per annum. Expected cash flow projections, which include budgeted sales, gross margin and raw material price inflation and other direct expenses have been determined based on past performance and the expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of goodwill exceeds its recoverable amount.

The carrying amounts of goodwill and trademarks in respect of CSLR amounting to HK$7,500,000 and HK$1,800,000 respectively as at 31 December 2008 have been fully impaired.

19. INVESTMENTS IN ASSOCIATES

	2008 HK$'000	2007 HK$'000
Cost of investments in associates, unlisted	**2,000**	2,000
Share of post acquisition losses	**(2,000)**	(2,000)
	–	–

Details of the Group's associates at 31 December 2008 and 2007 are set out as follows:

Name of entity	Form of business structure `	Place of incorporation or registration/ operation	Proportion of nominal value of issued share capital/ registered capital held by the Group 2008 %	2007 %	Principal activities
Sherman – Theme (China) Limited	Incorporated	Hong Kong	**23.70**	21.10	Investment holding
Shenyang Sherman – Theme Fashion Limited ("Shenyang Sherman")	Incorporated	PRC	**18.95** (note)	16.88 (note)	Inactive

Note: The Group holds 18.95% (2007: 16.88%) effective interest in Shenyang Sherman and controls 30% voting power at general meetings of Shenyang Sherman through its 63.18% (2007: 56.27%) interest in Theme.

The summarised financial information in respect of the Group's associates is set out below:

	2008 HK$'000	2007 HK$'000
Total assets	**–**	–
Total liabilities	**(1,379)**	(1,575)
Net liabilities	**(1,379)**	(1,575)
Group's share of net assets of associates	**–**	–
Revenue	**–**	–
Loss for the year	**(1)**	(3)
Group's share of results of associates for the year	**–**	–

The investments in associates have been fully impaired in previous years. The Group has discontinued recognition of its share of losses of associates.

20. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	2008 HK$'000	2007 HK$'000
Cost of unlisted investments in jointly controlled entity	**9,472**	11,467
Share of post-acquisition profits	**7,485**	6,243
Share of translation reserve	**2,905**	1,827
	19,862	19,537

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

Name of entity	Form of business structure	Place of registration and operations	Percentage of Ownership interest 2008 %	Ownership interest 2007 %	Voting power 2008 %	Voting power 2007 %	Profit sharing 2008 %	Profit sharing 2007 %	Principal activities
Hangzhou Dalifu Silk Finishing Co., Ltd.	Incorporated	PRC	**51**	51	**50**	50	**51**	51	Dyeing, printing and sandwashing of fabric
Suzhou High Fashion Garment Co., Ltd. ("Suzhou High Fashion") (Note i)	Incorporated	PRC	**51**	51	**60**	60	**51**	51	Garment manufacturing
STTM Limited (Note ii)	Incorporated	Hong Kong	**–**	28.4	**–**	50	**–**	28.4	Retailing of garments
Flaming China Limited (Note ii)	Incorporated	Hong Kong	**31.6**	28.4	**50**	50	**31.6**	28.4	Retailing of garments

Notes:

(i) The Group holds 51% of the registered capital of Suzhou High Fashion. However, under the terms of memorandum and articles of association of Suzhou High Fashion, all significant events must require unanimous consent by the Group and the other significant shareholder. Therefore, Suzhou High Fashion is classified as a jointly controlled entity of the Group.

(ii) The Group holds 31.6% (2007: 28.4%) effective interests and controls 50% voting power at general meetings of respective entities through its 63.18% (2007: 56.27%) interest in Theme.

20. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES *(Cont'd)*

The summarised financial information in respect of the Group's jointly controlled entities which are accounted for using the equity method is set out below:

	2008 HK$'000	2007 HK$'000
Current assets	**58,643**	53,076
Non-current assets	**20,853**	25,480
Current liabilities	**40,551**	40,249
Group's share of net assets of jointly controlled entities	**19,862**	19,537
Income	**72,512**	110,202
Expenses	**72,922**	110,518
Group's share of results of jointly controlled entities for the year	**(209)**	(161)

21. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2008 HK$'000	2007 HK$'000
Unlisted equity securities	**1,000**	1,000
Less: Impairment loss recognised	**(325)**	(325)
	675	675

The above unlisted investments represent investments in unlisted equity securities issued by an entity incorporated in the British Virgin Islands ("BVI"). They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

22. INVENTORIES

	2008 HK$'000	2007 HK$'000
Raw materials	**112,888**	132,295
Work in progress	**111,807**	140,412
Finished goods	**147,120**	135,049
	371,815	407,756

23. TRADE RECEIVABLES AND BILLS RECEIVABLE

	2008 HK$'000	2007 HK$'000
Trade receivables	**371,419**	417,766
Less: Allowance for doubtful debts	**(74,502)**	(89,335)
	296,917	328,431

The credit terms granted by the Group to its customers are normally with a range from 30 days to 90 days.

The aged analysis of the Group's trade receivables net of allowance for doubtful debts at the balance sheet date is as follows:

	2008 HK$'000	2007 HK$'000
Within 90 days	**269,471**	310,871
91 to 180 days	**22,218**	12,109
181 to 360 days	**4,218**	4,491
Over 360 days	**1,010**	960
	296,917	328,431

The Group has policy of allowance for bad and doubtful debts which is based on the evaluation of collectibility and age of accounts and on management's judgment including credit worthiness and past collection history of each customer. Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customer. Limits allocated to customers are reviewed twice a year.

At balance sheet date, trade receivables with an aggregate carrying amount of HK$198,522,000 (2007: HK$223,483,000) which are neither past due nor impaired for which the directors of the Company consider these amounts are of good credit quality.

23. TRADE RECEIVABLES AND BILLS RECEIVABLE *(Cont'd)*

Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of approximately HK$98,395,000 (2007: HK$104,948,000) which are past due at the balance sheet date for which the Group has not provided for impairment loss as these trade receivables are either settled subsequent to the balance sheet date or the respective customers have good repayment history. Accordingly, the directors of the Company believe that there is no further provision required in excess of the allowance of doubtful debts as at balance sheet date. The average age of these receivables is 63 days (2007: 85 days).

Ageing of trade receivables which are past due but not impaired:

	2008 HK$'000	2007 HK$'000
Within 90 days	**71,058**	87,433
91 – 180 days	**22,109**	12,064
181 – 360 days	**4,218**	4,491
Over 360 days	**1,010**	960
Total	**98,395**	104,948

Movement in the allowance for doubtful debts

	2008 HK$'000	2007 HK$'000
Balance at beginning of the year	**89,335**	89,021
Exchange adjustment	**(224)**	156
Impairment losses recognised on receivables (Note i)	**12,042**	10,543
Amounts written off as uncollectible (Note ii)	**(25,841)**	(7,775)
Amounts recovered during the year	**(810)**	(2,610)
Balance at end of the year	**74,502**	89,335

Notes:

(i) The impairment losses recognised on receivables are individually trade receivables that are past due at the reporting date and the Group believes that those amounts are unlikely to be recoverable based on past collection history and credit worthiness of each customer. The Group does not had any collateral over these balances.

(ii) The amounts written off as uncollectible are individually impaired trade receivables which are in severe financial difficulties.

At 31 December 2008, trade receivables of approximately HK$64,210,000 (2007: HK$61,661,000) are pledged to secure the credit facilities granted to the Group.

All bills receivable are aged within 90 days. Included in the bills receivable is approximately HK$16,364,000 (2007: HK$10,803,000) discounted bills with recourse, the respective bank borrowings was set out in note 32.

24. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Included in deposits, prepayments and other receivables are loan receivables of approximately HK$114 million (2007: HK$54 million) which represent loans to two independent third parties through two banks in the PRC and the terms of loans are set out below. The amounts has been settled in 2009.

Principal amounts	Maturity date	Terms	Carrying amounts 2008 HK$'000	 2007 HK$'000
RMB50,000,000	6 January 2009	Fixed interest at 6.2%	**56,818**	53,763
RMB50,000,000	2 February 2009	Fixed interest at 5.8%	**56,818**	–
			113,636	53,763

In addition, an amount of RMB148 million (equivalent to approximately HK$170 million) (2007: RMB328 million (equivalent to approximately HK$353 million)) included in deposits, prepayments and other receivables was proceeds from disposal of property, plant and equipment and prepaid lease payments which have not yet been received at the balance sheet date. The directors of the Company considered such amount is recoverable within 1 year and therefore are classified as current asset.

25. AMOUNTS DUE FROM AND TO JOINTLY CONTROLLED ENTITIES AND AN ASSOCIATE

The amounts due from jointly controlled entities are unsecured, interest free and are repayable on demand.

The amounts due to jointly controlled entities and an associate are unsecured, interest-free and are repayable on demand. Included in amounts due to jointly controlled entities is approximately HK$7,917,000 (2007: nil) payables for purchases of raw materials and finished goods and aged within 90 days.

26. DERIVATIVE HEDGING INSTRUMENTS

	2008 HK$'000	2007 HK$'000
Financial assets		
Cash flow hedges – Foreign currency forward contracts	**98,862**	317,254
Financial liabilities		
Cash flow hedges – Interest rate swaps	**–**	1,400

26. DERIVATIVE HEDGING INSTRUMENTS *(Cont'd)*

Foreign currency forward contracts:

The Group requires its PRC subsidiaries (of which the functional currency is RMB) to use foreign currency forward contracts to hedge its foreign currency exposure on forecast sales in HK$ to group entities of which the sales to end customers are denominated in United States Dollars ("USD"). As HK$ is pegged with USD, the exposures between HK$ and USD are not hedged. The management considered the hedges made by the PRC subsidiaries are highly effective and at the Group level, the hedges are effectively hedging its cost of sales which are mainly denominated in RMB affected by the movements of RMB relative to the sales to end customers, which are mainly denominated in USD.

At 31 December 2008, the Group has outstanding foreign currency forward contracts with an aggregate notional amount of HK$1,250 million (2007: HK$3,541 million) of selling HK$ for RMB at exchange rates ranging from RMB 0.9415 to RMB0.9717 (2007: RMB0.9272 to RMB0.9893) for HK$1 with maturity periods up to 16 months (2007: 29 months). The terms of the foreign exchange contracts have been negotiated to match the terms of the forecast sales.

During the year ended 31 December 2008, the Group reduced its forecasts on intragroup sales after considering the impact of the volatile financial market conditions after the third quarter of 2008. The Group had previously hedged HK$3,541 million of future sales of which HK$666 million are no longer expected to occur, and the remaining hedged items are still highly probable. Accordingly, the Group had recycled HK$29,773,000 of gains on foreign currency forward contracts relating to forecast intragroup sales that are no longer expected to occur from the hedging reserve into other income in the consolidated income statement during the year. The respective foreign currency forward contracts have been terminated accordingly. The effective portion of cash flow hedges on foreign currency forward contracts amounting to HK$65,327,000 (2007: HK$29,662,000) is transferred from equity upon occurrence of the sales to end customers which affected the consolidated income statement and deducted from cost of sales in the consolidated income statement.

As at 31 December 2008, fair value gains of approximately HK$97,950,000 (2007: HK$317,254,000) have been deferred in hedging reserve and is expected to be released to the consolidated income statement at various dates during the period from January 2009 to April 2010 (2007: January 2008 to May 2010), the period in which the forecast sales are realised, of which HK$22,019,000 (2007: HK$252,572,000) is expected to be released to consolidated income statements more than twelve months.

Interest rate swaps:

The Group used interest rate swaps to manage its exposure to volatility in interest payments relating to certain floating rate long-term bank borrowings. The floating-to-fixed interest rate swaps locked in the interest rates ranging from 2.9% to 4.1% per annum. The interest rate swaps matched the major terms of the hedged underlying bank borrowings such that the management considered that the interest rate swaps are highly effective hedging instruments.

As at 31 December 2007, the maturity periods of interest rate swaps at notional amount were as follows:

	2007 HK$'000
More than one year, but not exceeding two years	150,000
More than two years, but not exceeding three years	150,000
	300,000

26. DERIVATIVE HEDGING INSTRUMENTS *(Cont'd)*

Interest rate swaps: *(Cont'd)*

During the year ended 31 December 2008, the Group revokes the hedging relationship by early repaid the hedged long-term bank borrowings without terminating the respective interest rate swaps contracts. As of the dates of the hedging relationship terminated, the Group had recycled losses on interest rate swaps contracts of approximately HK$2,317,000 from the hedging reserve to profit or loss and recognised the subsequent change in fair value to the consolidated income statement.

Subsequent to the termination of the hedging relationship, the above derivatives deemed as held for trading and the changes in fair value are included in profit or loss. Their fair values are determined based on the valuation carried out by financial institutions, which are measured using the difference between the market forward rates at the balance sheet date for remaining duration of the outstanding contracts and their contracted forward rates.

27. STRUCTURED DEPOSITS

The structured deposits are placed with banks in the PRC and contain embedded derivatives, the returns of which are determined by reference to the change in certain exchange rates, interest rates or commodity price quoted in the market. The structured deposits are designated as FVTPL at initial recognition.

Major terms of the structured deposits at 31 December 2008 are as follows:

Principal amount	Maturity date (Note (a))	Annual coupon rate	Notes
RMB 23,000,000	9 February 2009	3.00% or 1.98%	(b)
RMB 30,000,000	2 April 2009	4.68% or 0%	(b)
RMB 35,000,000	15 April 2009	4.8% or 0.1% or 0%	(c)
RMB 88,000,000	11 September 2009	4.34% or 4.14%	(d)
RMB 20,000,000	14 December 2009	6.3% or 0%	(c)

Notes:

(a) Subject to the option for early termination by issuing banks.

(b) The annual coupon rate is dependent on whether the USD 3 months London Inter Bank Offered Rate ("LIBOR") falls within 0% to 8% during the period from inception date to maturity date.

(c) The annual coupon rate is dependent on whether the spot rate for conversion of USD for HK$ as prevailing in the international foreign exchange market falls within ranges as specified in the relevant agreements during the period from inception date to maturity date.

(d) The annual coupon rate is dependent on whether the price per troy ounce of gold for delivery in London falls within range of USD200 to USD2,000 during the period from inception date to maturity date.

At the balance sheet date, the structured deposits are stated at fair values based on valuation provided by respective counterparties. The fair values are calculated using discounted cash flow analyses based on the applicable yield curves of relevant interest rates, exchange rates and commodity prices.

28. SHORT-TERM DEPOSITS AND BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.2% to 0.4% (2007:0.4% to 0.81%) per annum. The short-term deposits carry fixed interest ranging from 4.14% to 4.67% (2007: 4.50% to 5.12%) per annum.

Bank balances are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired. Short-term deposits are deposits with banks with more than three months to maturity when acquired. Both bank balances and short-term deposits are matured within 12 months from the balance sheet date and are therefore classified as current assets.

29. TRADE PAYABLES AND BILLS PAYABLE

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

	2008 HK$'000	2007 HK$'000
Within 90 days	**137,792**	172,309
91 to 180 days	**6,963**	5,880
181 to 360 days	**6,759**	12,341
Over 360 days	**18,599**	12,997
	170,113	203,527
Accrued purchases	**93,452**	92,550
	263,565	296,077

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

All bills payable are aged within 90 days.

30. DERIVATIVE FINANCIAL INSTRUMENTS

	2008 HK$'000	2007 HK$'000
Financial liabilities		
Cross currency and interest rate swap	**6,916**	10,284
Cross currency swaps	**3,599**	7,222
Interest rate swaps	**12,651**	–
	23,166	17,506

30. DERIVATIVE FINANCIAL INSTRUMENTS *(Cont'd)*

Cross currency and interest rate swap:

The amount represents fair value of non deliverable cross currency and interest rate swap contract, which is designated at FVTPL on initial recognition. The Group will settle the difference between USD13,000,000 and RMB96,905,000 on 30 April 2009. During the period from the inception date to the maturity date of the contract, the Group receives interest on the notional amount of USD13,000,000 at LIBOR plus 0.75% per annum and pays interest at a fixed rate of 1.7% per annum on the notional amount of USD13,000,000.

As at 31 December 2008, a fair value gain of approximately HK$3,368,000 (2007: a loss of HK$10,284,000) has been recognised in the consolidated income statement.

Cross currency swaps:

The amount represents fair value of non deliverable cross currency swap contracts, which are designated at FVTPL on initial recognition. The Group will settle the difference between USD20,000,000 and RMB148,436,000 on 23 November 2009. During the period from the inception date to the maturity date of contract, the Group receives interest at LIBOR plus 2.5% per annum on notional amount of USD20,000,000.

As at 31 December 2008, a fair value gain of approximately HK$3,623,000 (2007: a loss of HK$7,222,000) has been recognised in the consolidated income statement.

Interest rate swaps:

The amount represents fair value of interest rate swap contracts, which are not qualified for hedging accounting (details are set out in note 26).

The major terms of interest rate swaps are as follows:

Notional amount	Maturity date	Swaps
HK$150,000,000	1 November 2009	From Hong Kong Interbank Offer Rate ("HIBOR") to 2.9%
HK$100,000,000	24 October 2011	From HIBOR to 4.1%
HK$50,000,000	27 October 2011	From HIBOR to 4.05%

As at 31 December 2008, a fair value loss of approximately HK$12,651,000 (2007: nil) has been recognised in the consolidated income statement.

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the valuation carried out by financial institutions, which is measured using the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and quoted forward exchange rates at the balance sheet date.

31. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**92**	369	**88**	337
In the second year	**92**	126	**81**	118
In the third to fifth year inclusive	**–**	127	**–**	113
	184	622	**169**	568
Less: Future finance charges	**(15)**	(54)	**–**	–
Present value of lease obligations	**169**	568	**169**	568
Less: Amount due for settlement within twelve months (shown under current liabilities)			**(88)**	(337)
Amount due for settlement after twelve months (shown under non-current liabilities)			**81**	231

The Group leases certain of its motor vehicles under finance lease. The remaining lease term is two years. For the year ended 31 December 2008, the average effective borrowing rate was 8.9% (2007: 9.5%) per annum. Interest rates are fixed at the contract date.

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 charge over the leased assets.

32. BANK BORROWINGS AND BANK OVERDRAFTS

	2008 HK$'000	2007 HK$'000
Trust receipt loans	**1,149**	3,848
Bank loans	**1,183,429**	853,319
	1,184,578	857,167
Analysed as:		
Secured	**74,891**	35,309
Unsecured	**1,109,687**	821,858
	1,184,578	857,167
Carrying amount repayable:		
Within one year	**1,007,578**	374,167
More than one year, but not exceeding two years	**157,000**	389,000
More than two years, but not exceeding five years	**20,000**	94,000
	1,184,578	857,167
Less: Amounts due within one year shown under current liabilities	**(1,007,578)**	(374,167)
Amounts due after one year shown under non-current liabilities	**177,000**	483,000

The Group's bank overdrafts and bank borrowings carry variable interest rates ranging from 1.30% to 5.65% (2007: 4.56% to 7.80%) per annum.

At 31 December 2008, certain bank loans are secured by bills receivable of HK$16,364,000 (2007: HK$10,803,000) and trade receivables of HK$64,210,000 (2007: HK$61,661,000).

At 31 December 2008, the Group undertakes to the banks that structured deposits of approximately HK$164,253,000 (2007: nil), short-term deposits of approximately HK$172,159,000 (2007: nil) and bank balances of approximately HK$81,961,000 (2007: HK$107,527,000) are maintained with respective banks during the life of certain bank loans.

33. DEFERRED TAXATION

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

	Deferred tax assets							Deferred tax liabilities								
	Unrealised profit arising on intra-group transactions	Bad and doubtful debts	Allowance for obsolete inventories	Unrealised exchange losses	Tax losses	Impairment loss on property, plant and equipment	Total	Accelerated tax depreciation	Revaluation of investment properties	Revaluation of property and prepaid lease payments transferred to investment property	Unsettled sale proceeds on disposal of property, plant and equipment and prepaid lease payments	Trademarks	Withholding tax in respect of undistributed earnings of PRC subsidiaries	Retirement benefits scheme contributions	Interest receivables	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007	(622)	(89)	(759)	(638)	(1,800)	–	(3,908)	1,282	5,432	–	–	1,800	–	46	–	8,560
Charge (credit) to consolidated income statement	217	(352)	(695)	119	(1,156)	–	(1,867)	–	778	–	78,061	–	–	106	–	78,945
Charge to property revaluation reserve	–	–	–	–	–	–	–	–	–	2,059	–	–	–	–	–	2,059
Exchange realignment	–	(31)	(2)	3	–	–	(30)	–	–	–	–	–	–	–	–	–
Effect of change in tax rate	–	(312)	(230)	–	–	–	(542)	–	–	–	–	–	–	–	–	–
At 31 December 2007	(405)	(784)	(1,686)	(516)	(2,956)	–	(6,347)	1,282	6,210	2,059	78,061	1,800	–	152	–	89,564
(Credit) charge to consolidated income statement	(438)	(97)	(312)	263	204	(1,562)	(1,942)	–	333	–	(23,165)	(165)	2,158	–	597	(20,242)
Charge to property revaluation reserve	–	–	–	–	–	–	–	–	–	1,930	–	–	–	–	–	1,930
Derecognised upon recognition of impairment loss of intangible assets	–	–	–	–	1,532	–	1,532	–	–	–	–	(1,532)	–	–	–	(1,532)
Exchange realignment	–	(3)	(11)	(3)	103	–	86	–	–	–	–	(103)	–	–	–	(103)
Effect of change in tax rate dealt with consolidated income statement	23	(67)	(386)	–	–	–	(430)	(73)	(355)	–	(31,526)	–	–	–	–	(31,954)
Effect of change in tax rate dealt with property revaluation reserve	–	–	–	–	–	–	–	–	–	(117)	–	–	–	–	–	(117)
At 31 December 2008	**(820)**	**(951)**	**(2,395)**	**(256)**	**(1,117)**	**(1,562)**	**(7,101)**	**1,209**	**6,188**	**3,872**	**23,370**	**–**	**2,158**	**152**	**597**	**37,546**

The ultimate realisation of these deferred tax assets depends principally on certain subsidiaries in Taiwan and the PRC achieving profitability and generating sufficient taxable profits to utilise the underlying deferred tax assets. Based on the taxable profit and loss projections of these businesses, it is more probable that the Group can fully utilise the deferred tax assets recognised. It may be necessary for some or all of these deferred tax assets be reduced and charged to the consolidated income statement if there is a significant adverse change in the projected performance and projected taxable profit of the business.

The Group has estimated tax losses arising in Hong Kong of HK$956,542,000 (2007: HK$850,189,000) and tax losses arising in overseas of HK$137,800,000 (2007: HK$168,452,000) for offsetting against future taxable profits of the companies in which the losses arose. No deferred tax asset has been recognised in respect of the tax losses due to unpredictability of future profit streams.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was HK$50 million (2007: nil). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

34. PROVISION FOR LONG SERVICE PAYMENTS

	HK$'000
At 1 January 2007	1,315
Amount utilised during the year	(386)
At 31 December 2007	929
Amount utilised during the year	(208)
Amount provided during the year	1,049
At 31 December 2008	**1,770**

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance. The provision represents management's best estimate of the probable future payments which have been earned by the employees from their service to the Group up to the balance sheet date.

35. SHARE CAPITAL

	Number of shares '000	Amount HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2007, 31 December 2007 and 31 December 2008	1,000,000	100,000
Issued and fully paid:		
At 1 January 2007	334,162	33,416
Exercise of share options (Note (i))	1,020	102
Shares repurchased and cancelled (Note (ii))	(6,366)	(637)
At 31 December 2007	328,816	32,881
Shares repurchased and cancelled (Note (ii))	(8,836)	(883)
At 31 December 2008	**319,980**	**31,998**

All the issued shares rank pari passu in all respects including all rights as to dividends, voting and return of capital.

35. SHARE CAPITAL *(Cont'd)*

Notes:

(i) On 26 April 2007 and 16 May 2007, an aggregate of 1,020,000 share options were exercised at the subscription price of HK$0.505 per share, resulting in the issue of 1,020,000 shares of HK$0.10 each for a total cash consideration of approximately HK$515,000.

(ii) The Company repurchased its own shares through the Stock Exchange as follows:

Year ended 31 December 2008

Month of repurchase	No. of ordinary shares of HK$0.10 each '000	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
April 2008	584	2.89	2.80	1,662
May 2008	860	2.93	2.85	2,495
June 2008	792	2.97	2.68	2,228
July 2008	1,806	2.70	2.47	4,714
August 2008	668	2.57	2.45	1,711
September 2008	530	1.98	1.78	991
October 2008	1,898	2.03	1.63	3,510
November 2008	872	1.65	1.47	1,352
December 2008	826	1.55	1.47	1,274
	8,836			19,937

Year ended 31 December 2007

Month of repurchase	No. of ordinary shares of HK$0.10 each '000	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
January 2007	580	1.50	1.45	870
February 2007	78	1.60	1.46	120
March 2007	380	1.70	1.62	628
June 2007	198	3.55	3.40	676
July 2007	1,898	3.65	3.45	6,719
August 2007	578	3.75	3.63	2,132
September 2007	260	3.49	3.34	890
October 2007	2,134	3.42	3.10	7,166
November 2007	260	3.08	2.90	781
	6,366			19,982

The above shares were cancelled upon repurchase. None of the Company's subsidiaries repurchased, sold or redeemed any of the Company's listed shares during the year.

36. SHARE OPTION SCHEMES

(A) Share option schemes of the Company

On 26 March 2002, the share option scheme adopted by the Company on 18 March 1994 (the "Old Scheme") was terminated and a new scheme (the "New Scheme") was adopted by the shareholders of the Company. As a result, the Company can no longer grant any further options under the Old Scheme. However, all options granted prior to the termination of the Old Scheme will remain in full force and effect. The purpose of the New Scheme is to enable the Company to grant options to eligible participants, thereby (a) providing alternative recognition of their contributions; (b) strengthening the relationship between the Group and its employees and executives; (c) attracting and retaining key employees and executives; and (d) motivating employees and executives. Eligible participants of the New Scheme include the directors and employees of the Group. Unless otherwise terminated or amended, the New Scheme will remain in force for 10 years from date of adoption.

Pursuant to the New Scheme, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and options granted and yet to be exercised under any other schemes will not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the Company's shares in issue at any time. The offer of a grant of share options may be accepted within 28 days from the date of the offer with no consideration being payable by the grantee. The exercise period of the share options granted is determinable by the directors, but no later than 10 years from the date of the offer. The subscription price for the shares in respect of which options are granted is determinable by the directors, but may not be less than the higher of (1) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option; (2) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant of the option; and (3) the par value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following table discloses movements of the Company's share options:

			Number of share options		
Name or category of participant	Date of grant	Exercise price HK$	At 1 January 2007	Exercised during 2007	At 31 December 2007 and 2008
Director					
So Siu Hang, Patricia	5 May 1999	0.505	720,000	(720,000)	–
Other employees	5 May 1999	0.505	300,000	(300,000)	–
			1,020,000	(1,020,000)	–

Note: 40% of the options granted are exercisable during the period from 5 May 2002 to 4 May 2009, 30% of the options granted are exercisable during the period from 5 May 2003 to 4 May 2009 and the remaining 30% of the options granted are exercisable during the period from 5 May 2004 to 4 May 2009.

36. SHARE OPTION SCHEMES *(Cont'd)*

(B) Share option scheme of Theme

Theme operates a share option scheme (the "Theme Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Theme and its subsidiaries operations. Eligible participants of the Theme Share Option Scheme include any employee or executive or any non-executive directors of Theme and its subsidiaries, including any full-time or part-time employees or executives, executive directors, non-executive directors, independent non-executive directors and secretary of any member of Theme and its subsidiaries. Theme Share Option Scheme became effective on 26 March 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Theme Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of Theme in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Theme Share Option Scheme within any 12-month period, is limited to 1% of the shares of Theme in issue at any time. Any further grant of share options in excess of this limit is subject to the approval of Theme's shareholders in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of Theme, or to any of their associates, are subject to approval in advance by the independent non-executive directors of Theme. In addition, any share options granted to a substantial shareholder or an independent non-executive director of Theme, or to any of their associates, in excess of 0.1% of the shares of Theme in issue at any time or with an aggregate value (based on the price of the Theme's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to approval of Theme's shareholders in advance in a general meeting.

The offer of a grant of share options of Theme may be accepted within 28 days from the date of the offer with no consideration being payable by the grantee. The share option may be exercised at any time during the Theme Share Option Scheme period.

The exercise price of the share options is determinable by the board of directors of Theme, but may not be less than the higher of (i) the Stock Exchange closing price of the Theme's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Theme's shares for the five trading days immediately preceding the date of the offer; and (iii) the par value of the Theme's shares.

No share options were granted under Theme Share Option Scheme during the year nor outstanding as at the balance sheet date.

37. NON-CASH TRANSACTIONS

During the year ended 31 December 2007, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK$378,000.

During the year ended 31 December 2007, the Group disposed of property, plant and equipment and prepaid lease payments with sales proceeds of approximately HK$430 million in which an amount of HK$353 million was not yet received at the balance sheet date and included in other receivables.

38. 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 shareholders 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 debt, which includes the bank borrowings disclosed in note 32, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated profits.

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

39. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2008 HK$'000	2007 HK$'000
Financial assets		
Derivative hedging instruments	**98,862**	317,254
Designated as at FVTPL	**226,753**	–
Loans and receivables	**1,518,048**	1,539,609
Available-for-sale investments	**675**	675
Financial liabilities		
Derivative hedging instruments	**–**	1,400
Derivative as at FVTPL	**23,166**	17,506
Amortised cost	**1,564,070**	1,266,594

39. FINANCIAL INSTRUMENTS *(Cont'd)*

Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, deposits and other receivables, derivative hedging instruments, derivative financial instruments, structured deposits, short-term deposits, bank balances, trade and bills payables, other payables and bank borrowings. Details of the 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, which expose the Group to foreign currency risk. The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities at the balance sheet date are as follows:

	Liabilities		Assets	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**59,998**	–	**–**	–
USD	**274,076**	390,390	**231,312**	218,388

The Group has entered into certain foreign currency forward contracts to hedge against the potential currency exposure on the forecast intragroup sales as set out in note 26. It is the Group's policy to negotiate the terms of the foreign currency forward contracts to match the terms of the hedged item to maximise hedge effectiveness.

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2007: 5%) strengthen in the functional currency (i.e. RMB) against the relevant foreign currencies. 5% (2007: 5%) 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, foreign currency forward contracts designated as cash flow hedges, cross currency and interest rate swap and cross currency swaps, and adjusts their translation at the year end for a 5% (2007: 5%) change in foreign currency rates and forward exchange rates. A positive/negative number below indicates an increase/decrease in post-tax profit and hedging reserve. The sensitivity analysis does not include the structured deposit which coupon rate is dependent on exchange rate of USD and HK$ as USD and HK$ are pegged.

39. FINANCIAL INSTRUMENTS *(Cont'd)*

Financial risk management objectives and policies *(Cont'd)*

Market risk (Cont'd)

Currency risk (Cont'd)

Sensitivity analysis (Cont'd)

	Impact on HK$		Impact on USD	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Profit or loss (i)	**2,549**	–	**(10,009)**	(12,015)
Hedging reserve (ii)	**65,413**	177,062	**–**	–

(i) This is mainly attributable to the exposure on cross currency and interest rate swap, cross currency swaps outstanding monetary items denominated in foreign currencies at year end date, which are not subject to cash flow hedges.

(ii) This is a result of changes in fair value of foreign currency contracts designated as cash flow hedges in relation to the Group's foreign currency forecast sales.

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate short-term deposits and pledged bank deposits. The Group is also exposed to cash flow interest rate risk relating to the variable rate bank borrowings, the structured deposits, interest rate swaps, cross currency and interest rate swap and cross currency swaps, which mainly concentrated on fluctuation of HIBOR or LIBOR. For year ended 31 December 2008, the Group does not have interest rate hedging policy. However, the management monitor interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposure to interest rates on financial liabilities is detailed in liquidity risk management section of this note below.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments. The analysis include the variable rate bank borrowings which assumes borrowings outstanding balances at the balance sheet date were outstanding for the whole year, the structured deposits which coupon rate is dependent on LIBOR, interest rate swaps, cross currency and interest rate swap and cross currency swaps. A 50 basis point (2007: 50 basis points) 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 rate. The sensitivity analysis below indicates 50 basis points (2007: 50 basis points) increase in interest rate. A negative number below indicates a decrease in post-tax profit.

39. FINANCIAL INSTRUMENTS *(Cont'd)*

Financial risk management objectives and policies *(Cont'd)*

Market risk (Cont'd)

Interest rate risk *(Cont'd)*

Sensitivity analysis *(Cont'd)*

	2008 HK$'000	2007 HK$'000
Profit or loss	**(7,814)**	(6,402)

In the management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the year end exposure does not reflect the exposure during the year.

Other price risk

The Group is exposed to commodity price risk through certain of its structured deposits which coupon rate is dependent on price per troy ounce of gold. As the variability and spread of coupon rate is insignificant, the management considers the commodity price risk is minimal.

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties 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 delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers, spread across geographical areas.

39. FINANCIAL INSTRUMENTS *(Cont'd)*

Financial risk management objectives and policies *(Cont'd)*

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 covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2008, the Group has available unutilised banking facilities of approximately HK$1,102 million (2007: HK$1,176 million).

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

For derivative financial instruments to be settled on a net basis, undiscounted net cash (inflows) outflows are presented.

Liquidity tables

	Weighted average interest rate %	Less than 3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2008 HK$'000
2008						
Non-derivative financial liabilities						
Trade and bills payables	n/a	257,532	9,840	–	267,372	267,372
Other payables	n/a	85,279	–	–	85,279	85,279
Amounts due to jointly controlled entities	n/a	25,630	–	–	25,630	25,630
Amount due to an associate	n/a	595	–	–	595	595
Bank overdrafts	3.53	447	–	–	447	447
Bank borrowings	3.53	337,400	699,623	183,530	1,220,553	1,184,578
Obligations under finance leases	8.90	23	69	92	184	169
		706,906	709,532	183,622	1,600,060	1,564,070
Derivative – net settlement						
Derivative financial instruments		–	13,712	9,454	23,166	23,166

39. FINANCIAL INSTRUMENTS *(Cont'd)*

Financial risk management objectives and policies *(Cont'd)*

Liquidity risk (Cont'd)

Liquidity tables *(Cont'd)*

	Weighted average interest rate %	Less than 3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2007 HK$'000
2007						
Non-derivative financial liabilities						
Trade and bills payables	n/a	300,226	319	–	300,545	300,545
Other payables	n/a	105,360	1,758	–	107,118	107,118
Amount due to an associate	n/a	597	–	–	597	597
Bank overdrafts	5.57	599	–	–	599	599
Bank borrowings	5.57	111,342	282,795	524,658	918,795	857,167
Obligations under finance leases	9.50	92	277	253	622	568
		518,216	285,149	524,911	1,328,276	1,266,594
Derivative – net settlement						
Derivative hedging instruments		–	–	1,400	1,400	1,400
Derivative financial instruments		–	–	17,506	17,506	17,506

Fair values

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

- the fair values of financial assets and financial liabilities (excluding derivative financial instruments and derivative hedging instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions as input;

- the fair values of foreign currency forward contracts designated as derivative hedging instruments are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts;

- the fair values of interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates;

- the fair values of cross currency and interest rate swap and cross currency swaps are determined by the discounted cash flow analysis using the applicable yield curve for the duration of the instruments or option pricing models.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

40. PLEDGE OF ASSETS

At the balance sheet date, the Group has pledged the following assets to secure credit facilities granted to the Group.

	2008 HK$'000	2007 HK$'000
Trade receivables	**64,210**	61,661
Bills receivable	**16,364**	10,803
Bank deposit (Note)	**142**	108
	80,716	72,572

Note: The Group has also pledged a bank deposit amounting to RMB125,000 (2007: RMB100,000) (equivalent to approximately HK$142,000 (2007: HK$108,000)) to fulfil the requirement of Beijing Olympic Organizing Committee for producing and selling 2008 Beijing Olympic products as at 31 December 2008 and 2007.

41. OPERATING LEASES

(a) The Group as lessor

The Group leases its investment properties and subleases certain of its rented shops under operating lease arrangements with average lease term of one to two years.

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

	2008 HK$'000	2007 HK$'000
Within one year	**9,358**	5,729
In the second to fifth years, inclusive	**6,901**	6,393
Over five years	**79**	2,265
	16,338	14,387

41. OPERATING LEASES *(Cont'd)*

(b) The Group as lessee

The Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	2008 HK$'000	2007 HK$'000
Within one year	**26,822**	32,198
In the second to fifth years, inclusive	**37,860**	36,538
Over five years	**7,286**	17,717
	71,968	86,453

Operating lease payments represent rentals payable by the Group for certain of its office premises, rental shops and factories. Leases are negotiated for terms ranging from one to ten years and rentals are fixed over the lease terms. In addition to the fixed rentals which are disclosed above, pursuant to the terms of certain rental agreements, the Group has to pay a rental based on certain percentage of the gross sales of the relevant shop.

42. CAPITAL COMMITMENTS

	2008 HK$'000	2007 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for in the consolidated financial statements	**29,443**	78,721
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	**–**	833

43. RETIREMENT BENEFITS SCHEMES

The Group operates a mandatory provident fund scheme (the "MPF Scheme") for all qualifying employees of the Group in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of the trustees. The employees of the subsidiaries in the PRC and Taiwan are members of retirement benefits schemes operated by the PRC and Taiwan governments respectively. The contributions are charged to the consolidated income statement as incurred.

The relevant PRC and Taiwan subsidiaries are required to make contributions to the state retirement schemes in the PRC and Taiwan based on a 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 and Taiwan governments are responsible for the pension liability to these retired staff.

44. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year:

	2008 HK$'000	2007 HK$'000
Purchases of raw materials and finished goods from jointly controlled entities	**40,477**	70,198
Sales of raw materials and finished goods to jointly controlled entities	**3,892**	2,299
Professional fees paid to Wilkinson & Grist (Note i)	**595**	979
Training fee paid to Clothing Industry Training Authority (Note ii)	**1,265**	1,700
Brokerage commission paid to Tai Fook Securities Co., Ltd. (Note iii)	**8**	864

Notes:

(i) Mr. Chan Wah Tip, Michael, a director of the Company, is a partner of Wilkinson & Grist.

(ii) Professor Yeung Kwok Wing, a director of the Company, is a director of Clothing Industry Training Authority.

(iii) Mr. Wong Shiu Hoi, Peter, a director of the Company, is a director of Tai Fook Securities Co., Ltd.

During the year ended 31 December 2007, the Group also acquired additional interest in a subsidiary in PRC from a director of a subsidiary, Mr. Fei Jian Ming, at a consideration of RMB16 million (equivalent to HK$17 million). Details of the transaction are set out in note 45.

Compensation of key management personnel

The remuneration of directors and key executive during the year are set out in note 8, which is determined by the remuneration committee having regard to the performance of individuals and market trends.

45. ACQUISITION OF ASSETS

During the year ended 31 December 2007, the Group acquired 27% equity interest in 杭州西湖春雷絲綢有限公司 ("Chun Lei") for a consideration of approximately RMB16 million (equivalent to approximately HK$17 million) and Chun Lei then become a wholly owned subsidiary of the Company. The major assets of Chun Lei are prepaid lease and property, plant and equipment. Other assets and liabilities acquired were insignificant.

46. POST BALANCE SHEET EVENT

On 3 April 2009, the Group acquired a piece of land in the PRC through an auction at the consideration of RMB21.2 million (equivalent to approximately HK$24.1 million).

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group 2008 %	2007 %	Principal activities
Angel Star Investment Limited	Hong Kong	HK$2 Ordinary HK$2 Non-voting deferred	**63.18** **63.18**	56.27 56.27	Holding of trademarks
August Silk Inc.	USA	US$10	**100**	100	Marketing and garment trading
Anway Garment Limited	Hong Kong	HK$2	**100**	100	Garment trading
Bramead International Inc.	British Virgin Islands ("BVI")/USA	US$1	**100**	100	Holding of trademarks
Cantabian Limited	Hong Kong	HK$2 Ordinary HK$2 Non-voting deferred	**100** **100**	100 100	Investment holding
Dongguan Dalisheng Fashion Co., Ltd. (Note 1)	PRC	HK$28,000,000	**100**	100	Garment manufacturing
Dongguan Sanyue Fashions Limited ("Dongguan Sanyue") (Note 3)	PRC	HK$10,000,000	**–**	51.77	Garment manufacturing
Dongguan Yihao Fashions Limited (Note 2)	PRC	HK$20,500,000	**63.18**	56.27	Garment manufacturing
Eminent Garment Limited	Hong Kong	HK$2	**100**	100	Garment trading
Guangdong Theme-Huayu Fashion Company Limited (Note 2)	PRC	RMB5,000,000	**63.18**	56.27	Garment retailing
Hangzhou High Fashion Knitwear Co., Ltd. (Note 1)	PRC	RMB23,660,000	**100**	100	Garment manufacturing
Hangzhou Xiwu Chun Lui Silk Co., Ltd ("Chun Lui") (Note 4)	PRC	RMB14,000,000	**–**	100	Garment manufacturing

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Cont'd)*

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group 2008 %	2007 %	Principal activities
High Fashion Garments, Inc	USA	US$5,000	**100**	100	Marketing and garment trading
High Fashion Apparel Limited	BVI/Hong Kong	US$1,000	**100**	100	Investment holding
High Fashion Accessories and Gifts Limited (Formerly known as High Fashion Outerwear Limited)	Hong Kong	HK$2	**100**	100	Accessories and gifts trading and manufacting
High Fashion Commerce Limited	Hong Kong	HK$1	**100**	–	Provision of procurement and undertaking services
High Fashion (China) Co., Ltd. (Note 1)	PRC	US$86,000,000	**100**	100	Dyeing, printing and sandwashing of fabrics and garment manufacturing
High Fashion (BVI) Limited	BVI/PRC	US$1	**100**	100	Product sourcing and development
High Fashion (FG) Limited	BVI/PRC	US$1	**100**	100	Garment manufacturing
High Fashion (HZ) Limited	BVI/PRC	US$1	**100**	100	Garment manufacturing
High Fashion Garments Company Limited	Hong Kong	HK$2 ordinary HK$10,000,000 Non-voting deferred	**100** **100**	100 100	Garment trading
High Fashion Garments Macao Commercial Offshore Limited	Macau	MOP100,000	**100**	100	Garment trading and agency
High Fashion Garments Management Limited	Hong Kong	HK$20 Ordinary HK$20 Non-voting deferred	**100** **100**	100 100	Provision of management services
High Fashion International (USA) Inc.	USA	US$1,800	**100**	100	Investment holding

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Cont'd)*

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group 2008 %	2007 %	Principal activities
High Fashion Knit Company Limited	Hong Kong	HK$2	**100**	100	Garment trading
High Fashion Knitwear Overseas Limited	Hong Kong	HK$2 Ordinary	**100**	100	Garment trading
		HK$10,000 Non-voting deferred	**100**	100	
High Fashion Silk (Zhejiang) Co., Ltd. (Note 1)	PRC	US$32,500,000	**100**	100	Silk weaving
High Fashion (UK) Limited	United Kingdom	GBP20,000	**70.5**	70.5	Garment trading
Navigation Limited	BVI/ Hong Kong	US$1	**100**	100	Investment holding
Stage II Limited	Hong Kong	HK$800,000	**63.18**	56.27	Garment retailing
Taiwan Vision Company Limited	Taiwan	NT$80,000,000	**63.18**	56.27	Garment retailing
Theme Corporate Fashion (Asia) Limited	Hong Kong	HK$1	**63.18**	56.27	Garment trading
Theme Corporate Fashion (Europe) Limited	Hong Kong	HK$1	**63.18**	56.27	Garment trading
Theme Corporate Fashion (Overseas) Limited	Hong Kong	HK$1	**63.18**	56.27	Garment trading
Theme (Dongguan) Limited	BVI/PRC	US$1	**63.18**	56.27	Garment trading
Theme Garments (Shenzhen) Company Limited (Note 2)	PRC	RMB60,000,000	**63.18**	56.27	Garment retailing and trading
Theme Fashion (Singapore) Pte. Ltd.	Singapore	S$100,000	**63.18**	56.27	Garment retailing
Theme Industry Hangzhou Company Limited (Note 2)	PRC	US$2,000,000	**63.18**	56.27	Garment manufacturing

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Cont'd)*

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group 2008 %	2007 %	Principal activities
The King Garment Limited	Hong Kong	HK$2	**100**	100	Garment trading
Theme International Holdings Limited ("Theme")	Bermuda/ Hong Kong	HK$8,965,000	**63.18**	56.27	Investment holding
Theme International Limited	Hong Kong	HK$2 Ordinary	**63.18**	56.27	Garment trading
		HK$1,000,000 Non-voting deferred	**63.18**	56.27	
Winsmart Overseas Limited	Hong Kong	HK$2	**100**	100	Garment trading

Notes:

(1) These companies are registered as a wholly-owned foreign enterprise.

(2) These companies are registered as a wholly owned foreign enterprise, in which the Group holds 63.18% (2007: 56.27%) effective interest through its 63.18% (2007: 56.27%) interest in Theme.

(3) On 24 March 2008, Dongguan Sanyue completed the process of deregistration.

(4) On 25 September 2008, Chun Lui completed the process of deregistration.

High Fashion Apparel Limited is a directly held wholly owned subsidiary of the Company. Except High Fashion Apparel Limited, all subsidiaries listed above are indirectly held by the Company.

The shares of Theme are listed on the Stock Exchange. The market value of Theme's shares held by the Group amounted to approximately HK$43,045,000 as at 31 December 2008 (2007: HK$196,730,000).

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

None of the subsidiaries had issued any debt securities at the end of the year.

Financial Summary

A summary of the published results and of the assets and liabilities of the Group for the last five financial periods, as extracted from the audited financial statements and reclassified and adjusted as appropriate, is set out below:

RESULTS

	Year ended 31 December				
	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000
Revenue	**2,598,031**	2,554,781	2,253,198	2,108,497	1,964,018
Profit before taxation	**96,904**	712,692	104,174	76,614	51,309
Taxation	**(18,551)**	(157,315)	(19,030)	(9,181)	(5,461)
Profit for the year	**78,353**	555,377	85,144	67,433	45,848
Attributable to					
Equity holders of the Company	**90,635**	566,616	85,118	67,433	72,400
Minority interests	**(12,282)**	(11,239)	26	–	(26,552)
	78,353	555,377	85,144	67,433	45,848

ASSETS AND LIABILITIES

	At 31 December				
	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000
Total assets	**3,478,849**	3,311,276	1,787,672	1,431,137	1,480,571
Total liabilities	**(1,868,592)**	(1,562,245)	(992,765)	(724,995)	(829,233)
	1,610,257	1,749,031	794,907	706,142	651,338

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Lam Foo Wah
(Chairman and Managing Director)
Ms. So Siu Hang, Patricia

Non-executive Directors
Mr. Chan Wah Tip, Michael
Professor Yeung Kwok Wing

Independent Non-executive Directors
Mr. Woo King Wai
Mr. Wong Shiu Hoi, Peter
Mr. Leung Hok Lim

AUDIT COMMITTEE
Mr. Leung Hok Lim *(Chairman)*
Mr. Chan Wah Tip, Michael
Professor Yeung Kwok Wing
Mr. Woo King Wai
Mr. Wong Shiu Hoi, Peter

REMUNERATION COMMITTEE
Mr. Wong Shiu Hoi, Peter *(Chairman)*
Mr. Chan Wah Tip, Michael
Professor Yeung Kwok Wing
Mr. Woo King Wai
Mr. Leung Hok Lim

COMPANY SECRETARY
Ms. Chan Wai Wei, Cynthia

LEGAL ADVISERS
Wilkinson & Grist

LEGAL ADVISERS ON BERMUDA LAW
Conyers Dill & Pearman

AUDITOR
Deloitte Touche Tohmatsu

REGISTERED OFFICE
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
11th Floor, High Fashion Centre
1-11 Kwai Hei Street, Kwai Chung
New Territories, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT
Westbroke Limited
Clarendon House, Church Street
Hamilton HM11, Bermuda

SUB-REGISTRAR AND TRANSFER AGENT IN HONG KONG
Tricor Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Hong Kong

PRINCIPAL BANKERS
Bank of America, N.A., Hong Kong Branch
Bank of China (Hong Kong) Limited
Citibank N.A., Hong Kong Branch
CITIC Ka Wah Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
KBC Bank, Hong Kong Branch
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited

Shareholders & Investor Relation Information

RESULTS ANNOUNCEMENT:–

2008 Final	7 April 2009
2008 Interim	16 September 2008
2007 Final	8 April 2008
2007 Interim	6 September 2007

2009 ANNUAL GENERAL MEETING

16 June 2009

CLOSURE OF REGISTER OF MEMBERS

Period from 10 June 2009 to 16 June 2009

DIVIDENDS:–

2008 Final	3 HK cents per share will be paid on or about 29 June 2009
2008 Interim	3 HK cents per share paid on 22 October 2008
2007 Final and Special	15 HK cents per share paid on 25 June 2008
2007 Interim and Special	15 HK cents per share paid on 10 October 2007

AUTHORISED SHARES

1,000,000,000 shares

ISSUED SHARES

319,979,550 shares (as at 31 December 2008)

BOARD LOT

2,000 shares

PAR VALUE

HK$0.1000

FINANCIAL YEAR END

December 31

STOCK CODE

608

COMPANY WEBSITE

www.highfashion.com.hk

LISTING DATE

4 August 1992