Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

Annual Report

2008

Stock Code : 458

CONTENTS

CORPORATE INFORMATION

WANG KOO Yik Chun
Honorary Chairlady

TANG Chi Chien, Jack
Chairman Emeritus

CHAIRMAN EMERITUS
TANG Chi Chien, Jack, *CBE (H)*

BOARD OF DIRECTORS
Executive Director:
WANG Kin Chung, Peter,
Chairman and Chief Executive Officer

Non-Executive Directors:
WANG KOO Yik Chun, *Honorary Chairlady*
MAK WANG Wing Yee, Winnie
WANG Shui Chung, Patrick

Independent Non-Executive Directors:
LO Kai Yiu, Anthony
James Christopher KRALIK
John Zhuang YANG

AUDIT COMMITTEE
LO Kai Yiu, Anthony,
Chairman of the Audit Committee
MAK WANG Wing Yee, Winnie
James Christopher KRALIK

REMUNERATION COMMITTEE
MAK WANG Wing Yee, Winnie,
Chairlady of the Remuneration Committee
LO Kai Yiu, Anthony
James Christopher KRALIK
John Zhuang YANG

SHARE OPTION COMMITTEE
WANG Kin Chung, Peter,
Chairman of the Share Option Committee
MAK WANG Wing Yee, Winnie

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY
LO Yiu Hee

AUDITOR
PricewaterhouseCoopers,
Certified Public Accountants

LEGAL ADVISORS
On Hong Kong Law : Richards Butler (in association with Reed Smith LLP)
On Bermuda Law : Appleby

PRINCIPAL BANKERS
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
Citibank, N.A.
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
The Bank of East Asia, Limited

REGISTERED OFFICE
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

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Kwai Chung, New Territories
Hong Kong
Tel : (852) 2279-3888
Fax : (852) 2480-4676
Website : http://www.tristateww.com

CORPORATE COMMUNICATIONS
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Tristate Holdings Limited
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LISTING INFORMATION
The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 1988.
Stock short name : Tristate Hold
Stock code : 458
Board lot : 1,000 shares

PRINCIPAL REGISTRAR AND TRANSFER OFFICE
Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke, HM08
Bermuda
Tel : (441) 299-3882
Fax : (441) 295-6759

BRANCH REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong
Tel : (852) 2862-8555
Fax : (852) 2865-0990

	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000
CONSOLIDATED INCOME STATEMENT					
Revenue	**3,491,630**	2,913,318	2,858,475	2,694,225	2,541,682
Profit for the year attributable to:					
Equity holders of the Company	**102,517**	130,263	115,359	167,779	51,952
Minority interests	**(35)**	1,991	4,902	8,052	4,711
Profit for the year	**102,482**	132,254	120,261	175,831	56,663
Basic earnings per share attributable to equity holders of the Company	**HK$0.38**	HK$0.48	HK$0.43	HK$0.62	HK$0.19
CONSOLIDATED BALANCE SHEET					
Non-current assets	**791,259**	538,201	520,664	464,153	388,873
Current assets	**1,153,360**	1,210,066	1,116,859	958,278	681,808
Current liabilities	**645,418**	615,261	558,848	483,960	411,242
Net current assets	**507,942**	594,805	558,011	474,318	270,566
Total assets less current liabilities	**1,299,201**	1,133,006	1,078,675	938,471	659,439
Non-current liabilities	**248,159**	149,532	186,551	178,362	32,091
Net assets	**1,051,042**	983,474	892,124	760,109	627,348
Capital and reserves attributable to equity holders of the Company	**1,050,600**	982,987	876,582	743,745	621,762
Minority interests	**442**	487	15,542	16,364	5,586
Total equity	**1,051,042**	983,474	892,124	760,109	627,348

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

In 2008, Tristate Holdings Limited (the "Company" or "Tristate") and its subsidiaries (together, the "Group") faced challenges arising from the global financial tsunami. Economic conditions and consumer confidence around the world was hampered and in particular those of the United States which is the major export market for the Group. At the same time, operating environment in China was worsening due to rampant inflation and the implementation of the new labour laws in the first half of the year. Against the backdrop of such tough operating environment, although the revenue of the Group increased by 20% to HK$3,491,630,000, our profit attributable to equity holders decreased by 21% to HK$102,517,000 in 2008, which was principally due to the continuous price pressure from customers.

The strategic acquisition of a group of companies based in the United Kingdom, which is a full service vendor to a renowned retail chain in the United Kingdom, paved the way for the Group to expand its scope of business as well as to balance the geographical spread of customers. The acquisition was completed on 14 March 2008. Having regard to the uncertain economic conditions, the Group will be cautious in devising and implementing its development strategies.

RESULTS

For the year ended 31 December 2008, the revenue of the Group grew from HK$2,913,318,000 in 2007 to HK$3,491,630,000 in 2008, representing an increase of 20%. Profit from operations decreased from HK$149,832,000 in 2007 to HK$119,557,000 in 2008. Profit attributable to equity holders of the Company was HK$102,517,000, representing a decrease of 21% over the previous year.

The Board recommends the payment of a final dividend of HK$0.09 per share in addition to the 2008 interim dividend of HK$0.06 per share.

KEY AREAS OF FOCUS

The Group will continue to focus on the following key areas in its garment manufacturing division:

Broad Product Range

We compete in the upper end of branded fashion garments and specialised products requiring high level of quality and complex production processes. We have extensive capabilities in design, pattern and sample making, as well as the ability to innovate to meet our customers' needs through strong manufacturing engineering efforts. The Group offers a wide range of fashion garment products, including ladies career dressing, suiting, sportswear and related separates, men's and ladies' casual and lifestyle clothes, as well as men's and ladies' outerwear. We carry the entire range of Bridge, Better, Casual and Moderate lines.

Broad Geographic Reach and Scale

The Group offers geographic diversification and a competitive cost base to its customers. We own and operate eleven factories in four countries with modern production equipment situated in the Mainland China, the Philippines, Thailand and Vietnam. The Group also has sales/liaison offices in Hong Kong, Macau, Shanghai, Taipei, Kaohsiung, Seoul, New York and the United Kingdom. We have the scale required to absorb large orders and produce reorders, line infusions and quick turn orders.

The construction of the third production facility in the Hefei Economic & Technological Development Area in Anhui Province, the Mainland China, which is the lowest cost centre of the Group, was completed by the end of 2008 with production commenced in February 2009, which adds considerable production capacity to the Group.

Strong Customer Relationships

With our key account management strategy, we have developed multi-product and multi-country relationships with our core customers. This strategy has broadened and strengthened our relationships with existing clients and opened up opportunities for new accounts. The Group has received various awards from its valuable customers in recognition of the business relationship nurtured by and the performance of the Group.

With the strong design and sales team of the newly acquired group in the United Kingdom, the Group has extended its scope of services offered to include garment design, fabric development and testing, and in particular, to provide complete apparel solutions to its customers.

Cost Control

In view of the continuous pressure on staff and manufacturing costs, we will continue to implement innovative and cost effective systems to enhance our factories' productivity and better manage materials costs and logistics expenses. In addition, advanced production technology and production processes have been used to reduce the reliance on manpower in order to maintain the Group's competitiveness.

Corporate Social Responsibility

The Group recognises the importance of total Corporate Social Responsibility ("CSR") compliance to our customers as they respond to the demands of the market relative to promoting workers' rights around the world. Total CSR compliance is a prerequisite for being a responsible supplier, and each year the requirements are becoming more stringent. With these responsibilities and values in mind, we strive to deliver the best possible services and products to our customers and will continue to uphold social compliance as a strategic priority. As a socially responsible entity, the Group is committed to fostering long term relationships with its shareholders, employees, customers and business partners.

All our work sites have taken actions to implement a consistent auditing and accountability process encompassing health, safety and environmental compliance in addition to meeting the social responsibility requirements of our customers.

Human Resources

We are fortunate to have many talented, experienced and dedicated professionals in our Group. Our aim is to focus on enhancing teamwork across functions and geographies. We will continue to adopt best practices to become a leader in our industry in delivering speedy and flexible production solutions and quality services to our customers.

OUTLOOK

The financial tsunami that originated from the United States has caused substantial hardship to the global economy. Currency values and commodity prices have become increasingly volatile and the global economic downturn is expected to continue in the coming year. Given these circumstances, the Group will exercise more stringent control on its cost structure and adopt a cautious approach to its development strategies. Additional efforts are needed to sustain growth in revenue and increase profit margin in such a highly competitive market. As a leading manufacturer of a wide range of apparel products, the Group has its competitive edge in producing high quality and high value added products for our customers at reasonable costs. We have large scale production sites with state-of-the-art production facilities in relatively low-cost countries. With our talented professionals and skilled labour, we are confident that we will be able to rise to the challenges ahead.

During the past economic downturn, we have proven with our spirit of excellence, our ability to maintain our competitive strength and operational stability by continuing to provide excellent services to our customers and implementing appropriate financial measures. Taken into consideration the existing business environment and our business strategies, we are cautiously optimistic about the outlook of the Group.

APPRECIATION

Ms. Leslie TANG SCHILLING resigned as a Non-Executive Director of the Company with effect from 26 February 2009. On behalf of the Board, I would like to take this opportunity to thank Ms. Tang for her invaluable contribution to the Group over the past twelve years, and to wish her every success and happiness.

To the entire family of Tristate employees – we could not have achieved these results without your hard work and commitment during the year. Thank you for your dedication, professionalism and team spirit. I would like to thank all our customers for their confidence in the Tristate Group as well as providing us with the opportunities to serve them and their continued support and it is our pleasure to have all of you as our business partners. I would also like to thank my fellow Directors. Without your dedication and enthusiasm, our Group would not have achieved the success it has today. Last, but not the least, we would like to express our sincere appreciation to our shareholders.

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Hong Kong, 1 April 2009

In this Management Discussion and Analysis, we present a review of our business and a discussion on the financial performance of Tristate Holdings Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2008.

BUSINESS REVIEW

For the year ended 31 December 2008, the total revenue of the Group was HK$3,491,630,000 (2007: HK$2,913,318,000), representing an increase of 20% as compared with 2007. Profit attributable to equity holders decreased by 21% to HK$102,517,000 (2007: HK$130,263,000).

Revenue generated from the garment manufacturing segment increased by 22% as compared with 2007. This was mainly due to the revenue contribution from the Velmore Group (as defined below) since its acquisition by the Group on 14 March 2008 as well as the growth in sales orders from existing and new customers during the year.

Revenue from the branded product distribution, retail and trading segment increased by 4% when compared with 2007. Such increase was mainly due to the revenue contribution from the Group's distribution business in China. During the year, the Group has renewed an existing license agreement and signed a new branded product distribution license agreement.

Geographically, the United States of America continued to be the major export market for the Group, contributing 60% (2007: 74%) of the total revenue. During the year, sales to Europe increased to 23% (2007: 10%) of the Group's total revenue due to the Group's increased access to the United Kingdom market following the acquisition of the Velmore Group. Sales to Asia recorded satisfactory growth and remained stable at 17% (2007: 16%) of the total revenue of the Group. The Group's garment manufacturing revenue is generally subject to seasonality. The management of the Group seeks to minimise the impact of seasonality by focusing on key customers with relatively even year-round orders.

Gross profit of the Group increased to HK$708,490,000 (2007: HK$587,417,000) while gross profit margin remained at 20%. Selling and distribution expenses increased by 27% mainly due to the increase in shop rental and running expenses which was in line with the expansion of the branded product distribution business. General and administrative expenses increased by 35%. Such increase was mainly due to our consolidation of the results of the Velmore Group.

The first year integration of the Velmore Group and the expansion in new branded product distribution business have principally caused the profit attributable to equity holders of the Company for the year to decrease by 21% to HK$102,517,000 (2007: HK$130,263,000).

In early 2006, the Hong Kong Inland Revenue Department (the "HK IRD") initiated a tax audit on certain companies within the Group for the years of assessment from 1999/2000 (financial year ended 31 December 1999) to 2004/2005 (financial year ended 31 December 2004). The HK IRD has issued protective assessments to some of these companies for the years of assessment 1999/2000, 2000/2001, 2001/2002 and 2002/2003 in view of the statutory time bar. During the course of the tax audit, further protective assessments for subsequent years may be raised by the HK IRD with respect to these companies. Since the tax audit is ongoing, its outcome cannot be readily ascertained with any degree of accuracy. The management of the Group has reviewed the situation and, after seeking necessary professional advice, considers that sufficient tax related provisions have been made in the consolidated financial statements in respect of the protective assessments which the Group had received.

The Group's construction of the third production facility in the Hefei Economic & Technological Development Area in Anhui Province was completed by the end of 2008 with production commenced in February 2009. The third production facility will contribute an additional factory space of about 29,000 square meters, bringing the total factory space of Hefei production base to around 46,000 square meters.

ACQUISITION OF VELMORE GROUP

On 25 January 2008, Sharp Hero International Limited ("Sharp Hero"), a wholly-owned subsidiary of the Company, and Mr. Derek Anthony MORTON and Ms. Stephanie Vera MORTON (the "Vendors") entered into a share purchase agreement, pursuant to which Sharp Hero conditionally agreed to purchase from the Vendors the entire issued share capital of Velmore Holdings Limited ("Velmore"). The acquisition was completed on 14 March 2008 for a cash consideration of HK$155,674,000 (equivalent to GBP9,870,000), subject to adjustments as stated in the share purchase agreement.

Velmore is an investment holding company incorporated in England with limited liability. Its principal subsidiary, Velmore Limited, is a full service vendor to a renowned retail chain in the United Kingdom. Services provided by Velmore and its subsidiaries (the "Velmore Group") include garment design, fabric development and testing, sample making, raw materials procurement, management of contract manufacturers and quality assurance. Velmore holds equity interests in two garment manufacturers in Morocco. Further details of the acquisition were set out in the announcement and the circular of the Company dated 29 January 2008 and 31 March 2008, respectively.

Save as disclosed above, there were no material acquisitions or disposals of subsidiaries or associated companies during the year 2008 and up to the date of this Annual Report and no important events affecting the Group have occurred since 31 December 2008 and up to the date of this Annual Report.

FINANCIAL RESOURCES AND LIQUIDITY

During the year, the Group continued to maintain a healthy liquidity position. As at 31 December 2008, cash and cash equivalents amounted to HK$300,349,000 (2007: HK$389,398,000) which were mainly denominated in Renminbi and United States dollars. The short-term bank borrowings of the Group amounted to HK$210,842,000 as at 31 December 2008 (2007: HK$227,092,000). Such borrowings were denominated in United States dollars, Hong Kong dollars and Thai Bahts. As at 31 December 2008, HK$119,320,000 (2007: HK$54,731,000) and HK$91,522,000 (2007: HK$172,361,000) of the short-term bank borrowings were interest bearing at fixed rates and floating rates, respectively. The Group maintained sufficient banking facilities and did not have any long-term bank borrowings outstanding as at 31 December 2008. Apart from the pledging of HK$15,498,000 bank deposit as collateral for certain foreign exchange facilities, facilities extended to the Group were not charged with the Group's assets. As the Group did not have net borrowings as at 31 December 2008 and 2007, no information on gearing ratio as at 31 December 2008 and 2007 is provided.

Most of the Group's receipts and payments were denominated in Hong Kong dollars, Renminbi, United States dollars, Euro and Pound Sterling. The management of the Group monitors the related foreign exchange risk exposure closely and manages significant foreign exchange risk with forward foreign exchange contracts. During the year ended 31 December 2008, the Group has entered into forward foreign exchange contracts to hedge against the foreign exchange exposures for payment of factory expenses denominated in Renminbi, Pound Sterling for sales receipts from customers and Euro for payments to suppliers. Further, the Group has entered into forward foreign exchange contracts to hedge against its net investment in the United Kingdom.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

Except for the capital commitments described in Note 38 to the consolidated financial statements, there were no material capital commitments or contingent liabilities as at 31 December 2008 which would require a substantial use of the Group's present cash resources or external funding.

HUMAN RESOURCES

The Group had about 17,000 employees as at 31 December 2008 (2007: 20,000). Fair and competitive remuneration packages and benefits are offered to competent employees. Discretionary bonuses are granted to eligible employees with outstanding performance. In addition, the Company has a share option scheme for granting of options to eligible persons to subscribe for shares in the Company.

FUTURE DEVELOPMENT

The global financial crisis which commenced in the middle of 2007 has led to recession in major economies, tightened liquidity across the banking sector and a high volatility in the currency and commodity markets. The garment manufacturing business of the Group was affected by a slowdown in demand, price contraction as well as volatility in foreign currencies. While the full impact of such factors is hard to anticipate, the Group will endeavour to take all necessary measures to mitigate its impact. The Group will continue to offer a variety of value added services to its customers and implement stringent cost control to optimise its profit margin. With the design and sales team of the Velmore Group based in the United Kingdom, the Group will extend its scope of services and products offered which include garment design, fabric development and testing, and in particular, complete apparel solutions to customers in the United Kingdom. The Group plans to extend similar services to its customers in the United States of America.

China's economy remains relatively sound in spite of the global financial crisis. Economic growth in China is expected to continue in the coming year, albeit at a slower pace. The Group has plans to continue its expansion of branded product distribution, retail and trading business in China. The Group has strong financial resources and management expertise, and will continue to look for branded product distribution opportunities in order to broaden its brand portfolio.

Going forward, the Group will also continue focusing on its core customers and product offerings. Given the outlook of the global economy in the near term remains challenging and uncertain, the Group maintains a cautious view of its overall performance for the coming year.

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board" or the "Directors") of Tristate Holdings Limited (the "Company") is committed to maintaining good corporate governance and recognises the importance of effective corporate governance, both internally and externally, for being a financially successful as well as responsible business. Internally, it improves the Company's internal communications, enhances departments' efficiency and speeds up management's decision making process. Externally, it strengthens the Company's competitiveness and increases confidence among shareholders, investors, customers and other stakeholders.

Throughout the year ended 31 December 2008, the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited, except for the deviation from code provision A.2.1. Details of the deviation are set out in the following relevant paragraphs.

Included in this report is the information relating to corporate governance practices of the Company during the year ended 31 December 2008 and significant events after that date and up to the date of this report.

A. DIRECTORS

The Board

The Company is headed by an effective Board which assumes responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. The Directors take decisions objectively in the interests of the Company and its subsidiaries (the "Group").

The Board meets regularly and Board meetings are held at least four times a year at approximately quarterly intervals. Special Board meetings will be held when necessary. Such Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of Directors. Accordingly, a regular meeting does not include the practice of obtaining Board consent through the circulation of written resolutions.

All Directors are given draft notice and agenda for regular Board meetings for comments and consideration and inclusion of any matters for deliberation at the meetings.

Dates of regular Board meetings are scheduled in the prior year to provide sufficient notice to give all Directors an opportunity to attend and formal notice of at least 14 days is given of each regular Board meeting. For all other Board meetings, reasonable notice will be given.

All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures and all applicable rules and regulations are followed.

Minutes of the meetings of the Board, the Audit Committee, the Remuneration Committee, the Share Option Committee and other special Board committees established for specific transaction purposes are kept by the Company Secretary. Such minutes are open for inspection at any reasonable time on reasonable notice by any Director.

Minutes of the meetings of the Board and Board committees record in sufficient detail the matters considered and decisions reached by the Board and Board committees, including any concerns raised by the Directors or dissenting views expressed. Draft and final versions of minutes of Board meetings are sent to all Directors for their comment and records respectively, in both cases within a reasonable time after the meeting is held.

The Directors, upon reasonable request, may seek independent professional advice in appropriate circumstances, at the Company's expense, to assist the discharge of their duties.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter would not be dealt with by way of circulation or by a committee (except an appropriate Board committee set up for that purpose pursuant to a resolution passed in a Board meeting) but a Board meeting would be held. The interested Directors are required to abstain from voting and would not be counted in the quorum. Independent Non-Executive Directors who, and whose associates, have no material interest in the transaction would be present at such Board meeting.

The Company has arranged directors' and officers' liability insurance in respect of any legal action against Directors.

Directors' attendance records

During the year ended 31 December 2008, four regular Board meetings have been held. The attendance of each Director at these Board meetings, Board committee meetings and the annual general meeting held in year 2008 (the "2008 AGM") is set out below:

	Number of meetings attended/held			
	Board	**Audit Committee**	**Remuneration Committee**	**2008 AGM**
Executive Director:				
Mr. WANG Kin Chung, Peter *(Chairman and CEO)*	4/4	N/A	N/A	1/1
Non-Executive Directors:				
Ms. WANG KOO Yik Chun *(Honorary Chairlady)*	2/4	N/A	N/A	1/1
Ms. Leslie TANG SCHILLING *(Note)*	2/4	N/A	N/A	1/1
Ms. MAK WANG Wing Yee, Winnie *(Chairlady of the Remuneration Committee)* *(member of the Audit Committee)*	3/4	2/2	1/1	1/1
Dr. WANG Shui Chung, Patrick	1/4	N/A	N/A	0/1
Independent Non-Executive Directors:				
Mr. LO Kai Yiu, Anthony *(Chairman of the Audit Committee)* *(member of the Remuneration Committee)*	3/4	1/2	0/1	1/1
Mr. James Christopher KRALIK *(member of the Audit Committee)* *(member of the Remuneration Committee)*	4/4	2/2	1/1	0/1
Professor John Zhuang YANG *(member of the Remuneration Committee)*	2/4	N/A	1/1	0/1

N/A: Not applicable

Note:

Ms. Leslie TANG SCHILLING has resigned as a Non-Executive Director of the Company with effect from 26 February 2009.

Chairman and Chief Executive Officer

There are two key aspects of the management of the Company – the management of the Board and the day-to-day management of the Company's business. Clear division of these responsibilities at the Board level is in place to ensure a balance of power and authority, so that power is not concentrated in any one individual.

During the year ended 31 December 2008 and up to the date of this report, Mr. WANG Kin Chung, Peter is the Chairman and the Chief Executive Officer ("CEO") of the Company, and that the functions of the Chairman and the CEO in the Company's strategic planning and development process overlap. These constitute a deviation from code provision A.2.1 of the Code which stipulates that the roles of the Chairman and the CEO should be separate and should not be performed by the same individual.

Mr. WANG Kin Chung, Peter has been with the Group since 1999 and has considerable experience in the garment industry. He provides leadership for the Board in considering and setting the overall strategic planning and business development of the Group. Given the current size of the Group and its present stage of development, the Board considers that it is in the interests of the Group that Mr. WANG Kin Chung, Peter holds both the offices of the Chairman and the CEO so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is capable to guide discussions and brief the Board in a timely manner on key issues and developments.

Given that there is a balanced Board with more than one-third of the number of its members being Independent Non-Executive Directors, the Board is of the view that there is a strong independent element in the Board to exercise independent judgement and provide sufficient check and balance.

The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings and is responsible for ensuring that Directors receive adequate, complete and reliable information in a timely manner.

Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company and a Non-Executive Director, is the mother of Mr. WANG Kin Chung, Peter (the Chairman and the CEO), Ms. MAK WANG Wing Yee, Winnie (Non-Executive Director) and Dr. WANG Shui Chung, Patrick (Non-Executive Director).

Board composition

The Board currently comprises one Executive Director, Mr. WANG Kin Chung, Peter, who is also the Chairman and the CEO; three Non-Executive Directors, namely Ms. WANG KOO Yik Chun, Ms. MAK WANG Wing Yee, Winnie and Dr. WANG Shui Chung, Patrick; and three Independent Non-Executive Directors, namely Mr. LO Kai Yiu, Anthony, Mr. James Christopher KRALIK and Professor John Zhuang YANG. Biographies of the Directors are set out in the "Directors' and Senior Management's Profile" section of this Annual Report.

The Board has a balance of skills and experience appropriate for the requirements of the business of the Group. Changes to its composition can be managed without undue disruption. With more than one-third of the number of its members being Independent Non-Executive Directors, there is a strong independent element in the Board, which can effectively exercise independent judgement.

All Directors are expressly identified by category of Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in all corporate communications that disclose the names of Directors of the Company.

The Company has received from each of the three Independent Non-Executive Directors an annual confirmation of his independence and considers that each of the Independent Non-Executive Directors is independent in accordance with the guidelines set out in rule 3.13 of the Listing Rules.

The Company maintains on its website an updated list of its Directors identifying their role and function.

Appointments, re-election and removal

The Board is responsible for considering the suitability of individuals to act as a Director, and approving or terminating the appointments. 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 identifying suitable candidates to fill Board membership whenever a vacancy arises or as an additional Director. He will put forward the qualified candidates to the Board for consideration. The Board will approve the appointment based on the candidates' qualifications, business experience and suitability to the Company.

In addition, in accordance with Bye-Law 90, a shareholder of the Company may propose a person for election as a Director by lodging at the registered office of the Company or branch registrar and transfer office notice in writing signed by the shareholder (other than the person to be proposed) and also notice in writing signed by the person to be proposed of his willingness to be elected provided that, in each case, the period for lodgement of such notices shall commence on (and include) the day after the date of despatch of the notice of general meeting appointed to consider such proposal and end on (exclude) the date that is seven days before the date of such general meeting. Upon receipt of such notices, the Board will consider the suitability of the said candidate as a Director and will make recommendation to the shareholders of the Company for their consideration.

Non-Executive Directors (including Independent Non-Executive Directors) are appointed for a specific term, subject to re-election.

Save for the term of appointment of Professor John Zhuang YANG as Independent Non-Executive Director being fixed for a period of three years commencing from 28 August 2007, the term of appointment of other Non-Executive Directors (including Independent Non-Executive Directors) was fixed for a period of three years commencing from 1 January 2008, subject to earlier determination in accordance with the bye-laws of the Company (the "Bye-Laws") and/or applicable laws and regulations.

Under code provision A.4.2 of the Code, all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment. All Directors of the Company (save for any executive chairman and any managing director) shall be subject to retirement by rotation at least once every three years and that a Director may voluntarily retire. A retiring Director shall be eligible for re-election.

At the forthcoming annual general meeting of the Company to be held on 1 June 2009 (the "2009 AGM"), Mr. WANG Kin Chung, Peter will voluntarily retire for the purpose of compliance with code provision A.4.2 of the Code, and Dr. WANG Shui Chung, Patrick and Mr. LO Kai Yiu, Anthony will retire by rotation and, being eligible, offer themselves for re-election as Directors in accordance with the Bye-Laws.

The Board has assessed the independence of Mr. LO Kai Yiu, Anthony who has been Independent Non-Executive Director of the Company for more than nine years and considers that Mr. LO Kai Yiu, Anthony continues to be independent, notwithstanding the length of his tenure, in accordance with the guidelines of independence as set out in rule 3.13 of the Listing Rules. The re-election of Mr. LO Kai Yiu, Anthony as Independent Non-Executive Director will be subject to a separate resolution to be approved by shareholders at the 2009 AGM.

Particulars of the aforesaid retiring Directors and the recommendation of the Board for their re-election are set out in a circular dated 24 April 2009 to be despatched to shareholders.

Responsibilities of directors

Every Director is required to keep abreast of his responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. Given the essential unitary nature of the Board, the Non-Executive Directors have the same duties of care and skill and fiduciary duties as the Executive Director.

Directors are provided with the Non-statutory Guidelines of Directors' Duties issued by the Hong Kong Companies Registry and continuous updates on the latest changes or material development in statues, the Listing Rules, corporate governance practices etc.

Every newly appointed Director of the Company would receive a comprehensive and tailored induction upon his appointment. The Company would conduct subsequent briefing as is necessary, to ensure that the newly appointed Director has a proper understanding of the operations and business of the Group and that he is fully aware of his responsibilities under statute, the Listing Rules and other applicable legal and regulatory requirements.

The functions of Non-Executive Directors include those functions specified in code provisions A.5.2(a) to (d) of the Code.

Every Director is aware that he/she should give sufficient time and attention to the affairs of the Company.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2008.

In addition, the Board has formally adopted the Model Code as guidelines for relevant employees in respect of their dealings in the securities of the Company.

Supply of and access to information

Directors are provided in a timely manner with appropriate information that enables them to make an informed decision and to discharge their duties and responsibilities as Directors of the Company.

In respect of regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying Board papers are sent in full to all Directors in a timely manner and at least three days before the intended date of a Board or Board committee meeting.

The management of the Group (the "Management") is aware that it has an obligation to supply the Board and its committees with adequate information in a timely manner to enable them to make informed decisions. The information supplied is complete and reliable. The Board and each Director have separate and independent access to the Company's senior Management.

All Directors are entitled to have access to Board papers and related materials. Where queries are raised by the Directors, the Management shall take steps to respond as promptly and fully as possible.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The level and make-up of remuneration and disclosure

The Company has established a Remuneration Committee with specific written terms of reference which deal clearly with its authority and duties.

The Remuneration Committee is responsible for making recommendations to the Board regarding the Company's remuneration policy and for the formulation and review of the specific remuneration packages of Directors and senior Management. No Director is involved in deciding his own remuneration.

A majority of the members of the Remuneration Committee are Independent Non-Executive Directors. During the year ended 31 December 2008 and up to the date of this report, the members of the Remuneration Committee are:

Non-Executive Director:
Ms. MAK WANG Wing Yee, Winnie

Independent Non-Executive Directors:
Mr. LO Kai Yiu, Anthony
Mr. James Christopher KRALIK
Professor John Zhuang YANG

Ms. MAK WANG Wing Yee, Winnie is the Chairlady of the Remuneration Committee.

The terms of reference of the Remuneration Committee have included the specific duties set out in code provisions B.1.3(a) to (f) of the Code, with appropriate modifications where necessary.

The Remuneration Committee has made available its terms of reference, explaining its role and the authority delegated to it by the Board, on the Company's website.

The Remuneration Committee is provided with sufficient resources to discharge its duties and has access to professional advice if considered necessary.

The emoluments payable to the Directors are determined at arm's length on the basis of the responsibilities involved, time devoted, financial position of the Company and the prevailing market conditions. At the 2008 AGM, the shareholders approved the authorisation of the Directors to fix their remuneration.

The policy adopted for the remuneration of the Non-Executive Directors for the three years commencing from 1 January 2008 is set out below:

(i) Annual director's fee for each Non-Executive Director HK$20,000

(ii) Meeting attendance fees for each Non-Executive Director

	Column A (As Chairman/ Chairlady) *(Note 1)*	Column B (As participating member) *(Note 2)*
Fee for attending each Board meeting	HK$10,000	HK$10,000
Fee for attending each Audit Committee meeting	HK$20,000	HK$10,000
Fee for attending each Remuneration Committee meeting	HK$5,000	HK$5,000
Fee for attending each Board committee meeting	HK$20,000	HK$10,000
Fee for attending each independent Board committee meeting	HK$20,000	HK$10,000
Fee for attending each Share Option Committee meeting	HK$5,000	HK$5,000

Notes:

1. If a Director acts as the Chairman/Chairlady at the relevant meeting, he/she will be entitled to the fee set out under column A only.

2. If a Director participates in the relevant meeting as a participating member (but he/she does not act as the Chairman/Chairlady), he/she will be entitled to the fee set out in column B only.

The attendance of each member at the Remuneration Committee meeting held during the year ended 31 December 2008 is set out in the "Directors' attendance records" section of this report.

During the year ended 31 December 2008, the Remuneration Committee held a meeting and the work performed is set out below:

(i) reviewed and approved the 2007 remuneration packages of the Directors and senior management;

(ii) reviewed and approved for recommendation to the Board the granting of share options; and

(iii) reviewed and approved the list of participants to the long term incentive plan of the Group.

C. ACCOUNTABILITY AND AUDIT

Financial reporting

It is the responsibility of the Board to present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.

The Management should provide such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge that they are responsible for preparing the accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the results and cash flow for the year then ended. In preparing the accounts for the year ended 31 December 2008, the Directors have:

(i) selected appropriate accounting policies and applied them consistently;

(ii) made judgements and estimates that are prudent and reasonable; and

(iii) prepared the accounts on a going concern basis.

A statement by the Auditor about their reporting responsibilities is included in the Independent Auditor's Report on page 33.

The Board would present a balanced, clear and understandable assessment to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

Internal controls

It is the responsibility of the Board to ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investment and the Company's assets.

During the year ended 31 December 2008, a review of the effectiveness of the system of internal controls applicable to the Group's major activities was carried out under the direction of the Audit Committee. This review comprised:

(i) periodic internal audit reports received from the Group's internal audit function detailing the activities/locations audited, key findings regarding the effectiveness of internal controls and recommendations for improvements; and

(ii) an annual review of key internal controls based on the COSO (Committee of Sponsoring Organisations of the Treadway Commission) framework. This encompassed evaluating the control environment, identifying key business objectives and risks which may prevent the achievement of such objectives, strategies to manage such risks and key controls established as part of the execution of such strategies. This annual review included financial, operational and compliance controls and risk management functions.

Audit Committee

It is the responsibility of the Board to establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's Auditor.

The Company has established an Audit Committee with specific written terms of reference which deal clearly with its authority and duties.

The Audit Committee is responsible for reviewing the financial information of the Company and overseeing of the Company's financial reporting system and internal control procedures.

A majority of the members of the Audit Committee are Independent Non-Executive Directors. During the year ended 31 December 2008 and up to the date of this report, the members of the Audit Committee are:

Non-Executive Director:
Ms. MAK WANG Wing Yee, Winnie

Independent Non-Executive Directors:
Mr. LO Kai Yiu, Anthony
Mr. James Christopher KRALIK

Mr. LO Kai Yiu, Anthony is the Chairman of the Audit Committee and has the professional qualifications and accounting and related financial management expertise as required under rule 3.10(2) of the Listing Rules.

None of the three Audit Committee members are former partner of the Company's external auditor.

Full minutes of the Audit Committee meetings are kept by the Company Secretary as secretary of the Audit Committee. Draft and final versions of minutes of the Audit Committee meetings are sent to all members of the Audit Committee for their comment and records within a reasonable time after the meeting.

The terms of reference of the Audit Committee have included the specific duties set out in code provisions C3.3(a) to (n) of the Code, with appropriate modifications where necessary.

The Audit Committee has made available its terms of reference, explaining its role and the authority delegated to it by the Board, on the Company's website.

The Board agrees with the Audit Committee's proposal for the re-appointment of PricewaterhouseCoopers ("PwC') as the Company's external auditor for 2009. The recommendation will be presented for the approval of shareholders at the 2009 AGM.

The Audit Committee is provided with sufficient resources, including access to independent professional advice, at the Company's expenses, if it considers necessary to discharge its duties.

The attendance of each member at the Audit Committee meetings held during the year ended 31 December 2008 is set out in the "Directors' attendance records" section of this report.

During the year ended 31 December 2008, the Audit Committee held two meetings and the work performed is set out below:

(i) reviewed the draft annual report and the audited financial statements of the Group for the year ended 31 December 2007 and recommended the same to the Board for approval;

(ii) made recommendation to the Board on the appointment of the external auditor at the 2008 AGM and considered the proposed external auditor's remuneration;

(iii) reviewed the draft interim report and unaudited interim financial statements of the Group for the six months ended 30 June 2008 and recommended the same to the Board for approval;

(iv) reviewed the audit service plan for the year ended 31 December 2008 from the external auditor and discussed with them the nature and scope of audit and their reporting obligations, considered and approved their terms of engagement and received their letter of independence;

(v) reviewed reports on the internal control system of the Group; and

(vi) reviewed various periodic internal audit reports.

Auditors' remuneration

In 2008, remunerations paid to PwC, the Company's external auditor, and its associates in respect of audit and non-audit services provided to the Group are set out below:

	2008 ***HK$'000***
Annual audit fees	**4,636**
Tax services fees	**1,441**
Other services fees	**1,290**
TOTAL	**7,367**

D. DELEGATION BY THE BOARD

Management functions

The Company has a formal schedule of matters specifically reserved to the Board for its decision. The Board has given clear directions to the Management as to the matters that must be approved by the Board before decisions are made on behalf of the Company.

When the Board delegates aspects of its management and administration functions to the Management, it has given clear directions as to the powers of the Management, in particular, with respect to the circumstances where the Management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

The Board is mainly responsible for setting and approving the Company's strategic direction and planning all important matters including the preparation of interim and annual results (including the determination of dividends), annual financial budget and business and operation plans. In addition, each member of the Board is expected to make a full and active contribution to the Board's affairs and ensure that the Board acts in the best interests of the Company and its shareholders as a whole.

Matters explicitly reserved for the Board's decision include, amongst other things, (i) the size, composition, structure and role of the Board and the Board committees, (ii) the suitability of any individual as a member of the Board or the Board committee, (iii) the appointment and removal of the CEO, and (iv) monitoring the performance of the CEO to ensure the Group is in alignment with its strategic direction. Responsibility for delivering the Company's objectives and running the business on a day-to-day basis is delegated to the senior Management.

Board committees

Board committees would be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

Where Board committees are established to deal with matters, the Board would prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.

Apart from the Audit Committee (particulars are disclosed under section C of this report) and the Remuneration Committee (particulars are disclosed under section B of this report), the Board has also established a Share Option Committee which comprises an Executive Director and a Non-Executive Director to deal with all such matters arising in connection with the administration of the share option scheme of the Company.

The terms of reference of the Audit Committee, the Remuneration Committee and the Share Option Committee require such Committees to report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

E. COMMUNICATION WITH SHAREHOLDERS

Effective communication

The Board endeavours to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

In respect of each substantially separate issue at a general meeting, a separate resolution would be proposed by the chairman of that meeting. The Chairman of the Board, the Chairman of the Audit Committee and the Chairlady of the Remuneration Committee attended to answer questions of the shareholders at the 2008 AGM.

Voting by Poll

The Company regularly informs shareholders of the procedure for voting by poll and ensures compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the Company.

Procedures for and the rights of shareholders to demand a poll have been disclosed in the Company's circular to shareholders dated 21 April 2008.

It was properly explained at the commencement of the 2008 AGM the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands and the detailed procedures for conducting a poll.

At the 2009 AGM, the chairman of the meeting will demand a poll on all the resolutions in accordance with the requirements of the Listing Rules.

Shareholders' rights and investor relations

The Company values communication with shareholders and investors. Enquiries and suggestions from shareholders or investors are welcomed through the following channels to the Company Secretary:

(i) By mail to the Company's head office at 5th Floor, 66-72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong;

(ii) By telephone at telephone number (852) 2279-3888;

(iii) By fax at fax number (852) 2423-5576; or

(iv) By e-mail to cosec@tristateww.com.

The Board resolved that the 2009 AGM will be held at Room 5A, 5th Floor, 66-72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong on Monday, 1 June 2009 at 10:00 a.m. The notice of the 2009 AGM will be sent to all shareholders separately. The Chairman of the Board together with the Chairman of the Audit Committee and the Chairlady of the Remuneration Committee or their delegates will attend the 2009 AGM to answer questions from the shareholders on the business to be dealt with at the 2009 AGM.

The important dates to shareholders in year 2009 are as follows:

Book close dates for proposed final dividend:	Wednesday, 27 May 2009 to Monday, 1 June 2009, both days inclusive
2009 AGM:	Monday, 1 June 2009
Expected payment date of proposed final dividend:	Thursday, 4 June 2009

On behalf of the Board

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Hong Kong, 1 April 2009

DIRECTORS

Executive Director

Mr. WANG Kin Chung, Peter, *BSc, MBA*, aged 55, became the Company's President and Chief Executive Officer in 1999 and redesignated as the Chairman and Chief Executive Officer of the Company since 2001. He is also the Chairman of the Share Option Committee of the Company and a director of certain subsidiaries of the Company. Mr. Wang has more than 25 years' experience in the garment industry and is responsible for the overall strategic planning and business development of the Company. Mr. Wang obtained a BSc degree in Industrial Engineering from Purdue University in Indiana, USA and an MBA degree from Boston University, USA. He is a non-executive director and a member of the audit committee of Johnson Electric Holdings Limited and the chairman and managing director of Hua Thai Manufacturing Public Company Limited (formerly listed on The Stock Exchange of Thailand). Mr. Wang won the Young Industrialist Award of Hong Kong in 1998. In 2005, he received the Outstanding Industrial Engineer Award from the School of Industrial Engineering of Purdue University. He is the chairman of the executive committee of the Hong Kong Garment Manufacturers Association, a vice chairman of the Textile Council of Hong Kong Limited, a director of The Federation of Hong Kong Garment Manufacturers, a member of the executive committee of The Hong Kong Shippers' Council and a member of the Textiles and Garment Subsector of the Election Committee for electing the Chief Executive of the Hong Kong Special Administrative Region in 2007. Mr. Wang is a son of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company and a brother of Ms. MAK WANG Wing Yee, Winnie and Dr. WANG Shui Chung, Patrick, Directors of the Company. He is a director of Silver Tree Holdings Inc. which is a substantial shareholder of the Company as disclosed in the "Substantial shareholders" section of the Report of the Directors.

Non-Executive Directors

Ms. WANG KOO Yik Chun, aged 91, became Co-chairlady and Honorary Co-chairlady in 1999 and 2001 respectively and then redesignated as the Honorary Chairlady of the Company since 2002. She is the founder of Hwa Fuh Manufacturing Company (Hong Kong) Limited and its subsidiaries. She is also the honorary chairlady and a non-executive director of Johnson Electric Holdings Limited, a former director of Hua Thai Manufacturing Public Company Limited (formerly listed on The Stock Exchange of Thailand), and a director of certain subsidiaries of the Company. Ms. Koo is the mother of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, Dr. WANG Shui Chung, Patrick and Ms. MAK WANG Wing Yee, Winnie, Directors of the Company.

Ms. MAK WANG Wing Yee, Winnie, *BSc*, aged 62, obtained her BSc degree from Ohio University, USA and became a Non-Executive Director of the Company in April 1999. She is also the Chairlady of the Remuneration Committee, a member of the Audit Committee and a member of the Share Option Committee of the Company. Ms. Wang is a director of two subsidiaries of the Company. She is also the vice chairman of Johnson Electric Holdings Limited. Ms. Wang is the daughter of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company, and a sister of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, and Dr. WANG Shui Chung, Patrick, a Director of the Company.

Dr. WANG Shui Chung, Patrick, *JP, BSc, MSc*, aged 58, obtained his BSc and MSc degrees in Electrical Engineering and received an Honorary Doctorate of Engineering from Purdue University in Indiana, USA. He became a Non-Executive Director of the Company in April 1999 and is a director of a subsidiary of the Company. Dr. Wang is the chairman and chief executive of Johnson Electric Holdings Limited, a non-executive director of The Hongkong and Shanghai Banking Corporation Limited and VTech Holdings Limited. He is the chairman of Hong Kong Applied Science and Technology Research Institute Company Limited and a member of the Hong Kong Task Force on Economic Challenges. Dr. Wang is a son of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company, and a brother of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, and Ms. MAK WANG Wing Yee, Winnie, a Director of the Company.

Independent Non-Executive Directors

Mr. LO Kai Yiu, Anthony, aged 60, joined the Company in June 1998 as an Independent Non-Executive Director. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Lo is a chartered accountant with the Canadian Institute of Chartered Accountants and is a member of the Hong Kong Institute of Certified Public Accountants. In addition to over eight years of professional accounting experience, he has over 28 years of experience in investment banking and other financial services. He is the chairman and co-chief executive officer of Shanghai Century Acquisition Corporation, and serves as a director of a number of public and private companies. Mr. Lo was a member of the Listing Committee of The Stock Exchange of Hong Kong Limited from 1998 to 2006.

Mr. James Christopher KRALIK, aged 43, was appointed as an Independent Non-Executive Director of the Company in April 2002. He is also a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Kralik is the managing director of Linden Street Capital Limited, a privately held investment company focused on Greater China-based investment opportunities. He previously served as the chief executive officer of VTech Telecommunications Limited, built and led a Hong Kong-based group of media and entertainment businesses, and was a management consultant with McKinsey & Company, Inc. Mr. Kralik is a graduate of Harvard College and the Harvard Business School.

Professor John Zhuang YANG, aged 54, was appointed as an Independent Non-Executive Director of the Company in August 2007. He is also a member of the Remuneration Committee of the Company. Professor Yang is the U.S. Dean, Beijing International MBA Program at Peking University, China; the Adjunct Professor of Management, China Center for Economic Research at Peking University, China; and the Associate Dean and the Associate Professor of Management, Fordham University, USA. Professor Yang received his Ph.D. in Business Administration from Columbia University, USA in 1991, majoring in management. He got his M.A. in Sociology from the same institution in 1985. Professor Yang was also granted an M.P.A. degree in International and Public Affairs from The Woodrow Wilson School of Public and International Affairs of Princeton University, USA in 1984. He got his B.A. in English Literature from Peking University, China in 1974. Main teaching and research interests of Professor Yang involve Fundamentals of Management, Human Resource Management, Comparative Management, Corporate Culture, key success factors of Multinational Corporation Strategies and Management in China, Leadership and Organisational Behaviour. He has published a large number of articles and columns in leading academic journals and business press in China and USA.

SENIOR MANAGEMENT

Mr. WU Ching Her, *BS*, aged 61, joined the Group in 1971 and is currently the Executive Vice President – Manufacturing of the Company. He was previously an Executive Director of the Company for the period from October 1987 to January 2005.

Mr. POON Kam Wing, John, *Ctext ATI, ACFI, MBA (Melb)*, aged 46, joined the Company in 1999 and is the Senior Vice President – Operation. Mr. Poon has over 20 years of experience in the garment industry. Immediately before joining the Company, Mr. Poon was a divisional general manager of a publicly listed conglomerate.

Mr. LO Yiu Hee, *BBA, MBA*, aged 51, joined the Company in June 2008 and is currently the Chief Financial Officer and Company Secretary of the Company. He holds bachelor and master degrees in business administration from The Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. Mr. Lo has over 25 years of experience in finance and accounting in various listed companies. He was the vice president of CPA Australia, Hong Kong China Division for 2000/2001 and 2003/2004, and councillor from 1997 to 2006.

Mr. Joshua Bruce PERLMAN, *BS*, aged 39, joined the Company in 2003 as Managing Director of the Retail and Wholesale division of the Company's wholly-owned subsidiary, 338 Fashion Co. Limited and was appointed as a director of 338 Fashion Co. Limited in 2005. 338 Fashion Co. Limited is the exclusive licensee for Nautica and Ben Sherman in the China, Hong Kong, Macau markets, as well as the Jack Wolfskin brand in China and Hong Kong. Mr. Perlman has over 16 years of experience in China working with multinational brands on the sales and marketing side of their operations. A graduate of both Tulane University and the Johns Hopkins University Center for Chinese and American Studies, Mr. Perlman is native of New York City, USA, and is fluent in Mandarin, Chinese.

The board of directors (the "Board") of Tristate Holdings Limited (the "Company") presents its report together with the audited financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are (i) garment manufacturing, and (ii) branded product distribution, retail and trading.

An analysis of the Group's revenue and contribution to operating profit for the year by business and geographical segment is set out in Note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 34.

An interim dividend of HK$0.06 per share amounting to HK$16,124,000 was paid on 6 October 2008 (2007: HK$0.08 per share, totalling HK$21,499,000).

The Board recommends the payment of a final dividend of HK$0.09 per share, totalling HK$24,186,000 for the year ended 31 December 2008 (2007: HK$0.12 per share, totalling HK$32,248,000).

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on Monday, 1 June 2009 (the "2009 AGM"), is expected to be paid on Thursday, 4 June 2009 to the shareholders of the Company whose names appear on the register of members of the Company on Monday, 1 June 2009, and for the purpose of determining the entitlements of the shareholders, the register of members of the Company will be closed from Wednesday, 27 May 2009 to Monday, 1 June 2009, both days inclusive.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2008 is set out on page 3.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 15 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2008 are set out in Note 18 to the consolidated financial statements.

ASSOCIATES

Particulars of the Group's interests in associates are set out in Note 21 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 35 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 36 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2008, the reserves of the Company amounted to HK$431,376,000 (2007: HK$431,020,000) and retained earnings amounted to HK$164,166,000 (2007: HK$117,596,000); of which HK$595,186,000 were available for distribution to equity holders of the Company as calculated in accordance with the Companies Act 1981 of Bermuda.

SHARE OPTIONS

The current share option scheme (the "2007 Share Option Scheme") was adopted by the Board on 2 April 2007 and was approved by the shareholders of the Company at the annual general meeting held on 6 June 2007 for granting of options to eligible persons to subscribe for shares in the Company.

The principal terms of the 2007 Share Option Scheme are summarised below:

Purpose	:	To attract and motivate high quality employees and officers of the members of the Group, to provide the participants who have been granted options under the 2007 Share Option Scheme to subscribe for shares of the Company with the opportunity to acquire proprietary interests in the Company, to encourage participants to work towards achieving certain performance targets in order to enhance the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, and to retain participants who achieve such performance targets.
Participants	:	The employees and officers of any member (from time to time) of the Group including, without limitation, directors, senior vice presidents, factory general managers, vice presidents and other full-time employees of any member of the Group as determined by the Board from time to time.
Total number of shares available for issue and the percentage of the issued share capital that it represents as at the date of this report	:	26,873,525 shares representing 10% of the issued share capital of the Company.
Maximum entitlement of each participant	:	Not exceeding 1% of the shares of the Company in issue in any 12 month period.
Period within which the shares must be taken up under an option	:	The period within which the options must be exercised will be specified by the Board at the time of grant. This period must expire no later than ten years from the relevant date of grant.
Minimum period for which an option must be held before it can be exercised	:	At the time of grant of the options, the Board may specify any minimum period(s) for which an option must be held before it can be exercised. The 2007 Share Option Scheme does not contain any such minimum period.
Amount payable on acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	:	HK$1.00 (or its equivalent), to be paid within ten business days from the date on which the letter containing the offer is issued to that participant.

Basis of determining the exercise price	:	The subscription price for the shares which are the subject of the options shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheet issued by The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Hong Kong Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price will be determined by the Board at the time the option is offered to the participant.
Remaining life of the 2007 Share Option Scheme	:	No options may be granted under the 2007 Share Option Scheme on or after the date of the tenth anniversary of the adoption of the 2007 Share Option Scheme.

Movement in the share options granted under the 2007 Share Option Scheme during the year and outstanding as at 31 December 2008 were as follows:

		Number of share options				
Date of grant	**Participant**	**At 01/01/2008**	**Granted during the year**	**At 31/12/2008**	**Exercise price per share**	**Exercisable period**
02/07/2008	Employees (in aggregate)	–	447,000	**447,000**	HK$1.86	02/07/2008 – 01/07/2013
		–	447,000	**447,000**	HK$1.86	02/07/2009 – 01/07/2013
		–	447,000	**447,000**	HK$1.86	02/07/2010 – 01/07/2013
		–	447,000	**447,000**	HK$1.86	02/07/2011 – 01/07/2013
	Total	–	1,788,000	**1,788,000**		

Notes:

1. The above options vest in four equal tranches over a period of three years from the date of grant.

2. The Company received a total consideration of HK$6.00 from the grantees for the above grant of options.

3. The closing price of the shares of the Company on 30 June 2008, i.e. the business date immediately before the date on which the above options were granted, as quoted on the Hong Kong Stock Exchange, was HK$1.90.

4. No share options granted had been exercised, cancelled or lapsed during the year.

Other details of the share options granted under the 2007 Share Option Scheme are set out in Note 37 to the consolidated financial statements.

BANK BORROWINGS

Details of the bank borrowings of the Group are set out in Note 30 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$482,000.

DIRECTORS

The directors of the Company (the "Directors") who held office during the year and up to the date of this report are:

Executive Director:
Mr. WANG Kin Chung, Peter
(Chairman and Chief Executive Officer)

Non-Executive Directors:
Ms. WANG KOO Yik Chun
(Honorary Chairlady)
Ms. Leslie TANG SCHILLING
(resigned on 26 February 2009)
Ms. MAK WANG Wing Yee, Winnie
Dr. WANG Shui Chung, Patrick

Independent Non-Executive Directors:
Mr. LO Kai Yiu, Anthony
Mr. James Christopher KRALIK
Professor John Zhuang YANG

For compliance with code provision A.4.2 set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") and in accordance with Bye-Laws 85 and 86 of the Company's Bye-Laws, Mr. WANG Kin Chung, Peter will voluntarily retire and Dr. WANG Shui Chung, Patrick and Mr. LO Kai Yiu, Anthony will retire by rotation and, being eligible, offer themselves for re-election as Directors at the 2009 AGM.

The Company has received from each of the three Independent Non-Executive Directors an annual confirmation of his independence and considers that each of the Independent Non-Executive Directors is independent in accordance with the guidelines set out in rule 3.13 of the Listing Rules.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and the senior management of the Group as at the date of this report are set out on pages 21 to 23.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2008, the interests and short positions of the Directors and the chief executive of the Company 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 (the "SFO")) which were (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") under Appendix 10 of the Listing Rules, were as follows:

Interests in shares of the Company

		Number of shares held			
Name of Director	**Long/short position**	**Through spouse or minor children**	**Through controlled corporation(s)**	**Total**	**Approximate percentage of issued share capital**
Mr. WANG Kin Chung, Peter	Long position	3,388,000 *(Note 1)*	178,442,000 *(Note 2)*	181,830,000	67.66%

Interests in shares of Hua Thai Manufacturing Public Company Limited ("Hua Thai")

			Number of shares held		
Name of Director	**Long/short position**	**Class**	**Through spouse or minor children**	**Total**	**Approximate percentage of issued share capital**
Ms. WANG KOO Yik Chun	Long position	Ordinary share	2,500 *(Note 3)*	2,500	0.03%

Notes:

1. 3,388,000 shares were beneficially owned by Ms. Daisy TING, the spouse of Mr. WANG Kin Chung, Peter.
2. 178,442,000 shares were beneficially owned by Silver Tree Holdings Inc., a company wholly owned by Mr. WANG Kin Chung, Peter.
3. 2,500 shares in Hua Thai were held by the late Mr. WANG Seng Liang, the spouse of Ms. WANG KOO Yik Chun.

Save as disclosed above, as at 31 December 2008, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the "Share Options" section in this report and in Note 37 to the consolidated financial statements, at no time during the year was the Company, its subsidiaries, its holding company or the subsidiaries of its holding company, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the 2009 AGM has a service contract with the Group, which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Continuing Connected Transaction" in this report, no contract of significance to which the Company or any of its subsidiaries was a party and in which any of the Company's Director or controlling shareholder or its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year ended 31 December 2008, none of the Directors have any interest in business apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the Group's businesses under rule 8.10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

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

		Number of shares held			
Name of shareholder	**Long/short position**	**Directly beneficially owned**	**Through spouse or minor children**	**Total**	**Approximate percentage of issued share capital**
Ms. Daisy TING	Long position	3,388,000	178,442,000 *(Note)*	181,830,000	67.66%
Silver Tree Holdings Inc.	Long position	178,442,000 *(Note)*	–	178,442,000	66.40%
Mr. TANG Yue Nien, Martin	Long position	21,300,000	–	21,300,000	7.93%

Note:

178,442,000 shares were beneficially owned by Silver Tree Holdings Inc., a company wholly owned by Mr. WANG Kin Chung, Peter. Since Ms. Daisy TING is the spouse of Mr. WANG Kin Chung, Peter, she is deemed to be interested in the shares controlled by Mr. WANG Kin Chung, Peter under Part XV of the SFO.

Save as disclosed above, as at 31 December 2008, no other person (other than a Director or the chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

EMOLUMENT POLICY

The Group provides competitive compensation and benefits for its employees, including group personal accident insurance, retirement and medical benefit schemes.

Remuneration packages are generally structured by reference to market and individual merits. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Discretionary bonuses are granted to eligible employees with outstanding performance. In addition, the Company has a share option scheme for granting of options to eligible persons to subscribe for shares in the Company.

Emolument policy is reviewed regularly by the Board and by the Remuneration Committee in respect of the Directors and senior management. The emoluments payable to the Directors are determined at arm's length on the basis of the responsibilities involved, time devoted, current financial position of the Company and prevailing market conditions.

Details of the emoluments of the Directors for the year ended 31 December 2008 are set out in Note 13 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of the Group are set out in Note 31 to the consolidated financial statements.

MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales attributable to the Group's largest customer and the five largest customers combined were 25% and 55%, respectively.

The aggregate purchases attributable to the Group's five largest suppliers taken together were less than 30% of the Group's total purchases for the year.

None of the Directors, their associates, or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had, at any time during the year, a beneficial interest in any of the Group's five largest customers.

CONTINUING CONNECTED TRANSACTION

On 10 January 2007, Hwa Fuh Manufacturing Company (Hong Kong) Limited ("Hwa Fuh"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "Tenancy Agreement") with TDB Company Limited ("TDB"), in relation to the leasing of a premises at Ground and 2nd to 11th Floors, Tak Dah Industrial Building, 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong (the "Premises") for a term of two years from 1 April 2007 to 31 March 2009. As at the date of the Tenancy Agreement, the entire issued share capital of TDB was held by a discretionary trust of which Mr. WANG Kin Chung, Peter and Ms. WANG KOO Yik Chun, both being Directors, were eligible beneficiaries. TDB was therefore a connected person of the Company for the purpose of the Listing Rules. Accordingly, the entering into of the Tenancy Agreement constituted a continuing connected transaction for the Company under Chapter 14A of the Listing Rules (the "Continuing Connected Transaction").

Details of the Tenancy Agreement were as follows:

Term	:	Two years from 1 April 2007 to 31 March 2009
Monthly rental	:	HK$371,435 (excluding management fees, government rates and government rent)
Use of the Premises	:	As factory, storage and ancillary office by the Company and certain of its subsidiaries

The annual rental (the "Annual Cap") paid or payable by Hwa Fuh under the Tenancy Agreement for each of the three financial years ending 31 December 2009 is as follows:

Term	Annual Cap *HK$*
1 April 2007 to 31 December 2007	3,342,915
1 January 2008 to 31 December 2008	4,457,220
1 January 2009 to 31 March 2009	1,114,305

The terms of the Tenancy Agreement were arrived at after arm's length negotiations between Hwa Fuh and TDB and on the basis of the valuation made by an independent property valuer which opined that the terms (including the rental) of the Tenancy Agreement were fair and reasonable by reference to the prevailing market rentals for comparable properties in the same district of similar ages, size, uses and attributes.

Further details of the Continuing Connected Transaction were set out in the announcement of the Company dated 10 January 2007 (the "Announcement").

The Independent Non-Executive Directors have reviewed the Continuing Connected Transaction and confirmed that during the year such transaction has been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with the Tenancy Agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In connection with the compliance with requirements of the Listing Rules in respect of the Continuing Connected Transaction, PricewaterhouseCoopers, the auditor of the Company, have performed agreed-upon procedures and have issued a report to the Board stating the factual findings resulting from their work:

(i) the Continuing Connected Transaction has been approved by the respective Board of Directors of the Company and Hwa Fuh;

(ii) the Continuing Connected Transaction has been entered into on terms in accordance with the Tenancy Agreement; and

(iii) the annual rent arising from the Continuing Connected Transaction did not exceed the Annual Cap as disclosed in the Announcement.

Subsequent to the year end, a new tenancy agreement (the "New Tenancy Agreement") was entered into between Hwa Fuh and TDB on 9 January 2009 for renewal of the Tenancy Agreement for a term of two years from 1 April 2009 to 31 March 2011. Further details of the New Tenancy Agreement were set out in the announcement of the Company dated 9 January 2009.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws and there are no restrictions against such rights under the laws of Bermuda (being the jurisdiction in which the Company was incorporated).

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of its shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the year.

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, the Company has maintained sufficient public float as required under the Listing Rules during the year and up to the date of this report.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the year ended 31 December 2008, save for the deviation from code provision A.2.1 which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Considered reasons for the deviation from code provision A.2.1 as well as further information of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 10 to 20.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Hong Kong, 1 April 2009

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TRISTATE HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Tristate Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 34 to 98, which comprise the consolidated and Company balance sheets 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 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 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 Companies Act 1981 of Bermuda 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 1 April 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	**2008** **HK$'000**	2007 HK$'000
Revenue	5	**3,491,630**	2,913,318
Cost of sales		**(2,783,140)**	(2,325,901)
Gross profit		**708,490**	587,417
Other income and other gains/(losses)	5	**25,471**	25,261
Selling and distribution expenses		**(162,239)**	(127,680)
General and administrative expenses		**(452,165)**	(335,166)
Profit from operations	6	**119,557**	149,832
Finance income	7	**8,008**	11,758
Finance costs	7	**(12,394)**	(12,192)
Gain from acquisitions of additional interests in subsidiaries		**–**	203
Share of losses of associates	21	**(2,696)**	–
Provision for impairment in an associate	21	**(2,775)**	–
Profit before income tax		**109,700**	149,601
Income tax expense	8	**(7,218)**	(17,347)
Profit for the year		**102,482**	132,254
Attributable to:			
Equity holders of the Company	9	**102,517**	130,263
Minority interests		**(35)**	1,991
		102,482	132,254
Dividends	10	**40,310**	53,747
Earnings per share attributable to equity holders of the Company:			
Basic	11	**HK$0.38**	HK$0.48
Diluted	11	**HK$0.38**	N/A

The accompanying notes form an integral part of these consolidated financial statements.

	Note	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**571,338**	468,334
Investment properties	16	**1,065**	1,649
Leasehold land and land use rights	17	**27,824**	28,868
Intangible assets	19	**159,738**	18,269
Other long-term assets	20	**19,627**	17,288
Deferred income tax assets	33	**6,676**	3,793
Investments in associates	21	**4,991**	–
		791,259	538,201
CURRENT ASSETS			
Inventories	22	**343,472**	367,438
Accounts receivable and bills receivable	23	**384,874**	364,219
Derivative financial instruments	24	**45,621**	–
Prepayments and other receivables	25	**73,445**	83,137
Cash and cash equivalents	26	**300,349**	389,398
		1,147,761	1,204,192
Non-current assets held for sale	27	**5,599**	5,874
		1,153,360	1,210,066
CURRENT LIABILITIES			
Accounts payable and bills payable	28	**185,269**	184,029
Accruals and other payables	29	**205,633**	163,802
Current income tax liabilities		**43,674**	40,338
Bank borrowings	30	**210,842**	227,092
		645,418	615,261
NET CURRENT ASSETS		**507,942**	594,805
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,299,201**	1,133,006
NON-CURRENT LIABILITIES			
Retirement benefits and other post retirement obligations	31	**33,694**	35,427
License fees payable	32	**124,247**	17,612
Deferred income tax liabilities	33	**83,629**	96,493
Other long-term liabilities	34	**6,589**	–
		248,159	149,532
NET ASSETS		**1,051,042**	983,474
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	35	**26,874**	26,874
Reserves	36	**1,023,726**	956,113
		1,050,600	982,987
Minority interests		**442**	487
TOTAL EQUITY		**1,051,042**	983,474

Approved by the Board of Directors on 1 April 2009 and signed on its behalf by:

WANG Kin Chung, Peter
Director

MAK WANG Wing Yee, Winnie
Director

The accompanying notes form an integral part of these consolidated financial statements.

BALANCE SHEET
As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**744**	1,095
Investments in subsidiaries	18(a)	**481,939**	475,723
Other long-term assets	20	**8,985**	10,606
Deferred income tax assets	33	**286**	282
		491,954	487,706
CURRENT ASSETS			
Amounts due from subsidiaries	18(b)	**165,256**	127,296
Prepayments and other receivables	25	**1,543**	1,148
Cash and cash equivalents	26	**5,148**	2,820
		171,947	131,264
CURRENT LIABILITIES			
Accruals and other payables		**11,872**	15,280
Amounts due to subsidiaries	18(b)	**9,149**	8,178
		21,021	23,458
NET CURRENT ASSETS		**150,926**	107,806
TOTAL ASSETS LESS CURRENT LIABILITIES		**642,880**	595,512
NON-CURRENT LIABILITIES			
Retirement benefits and other post retirement obligations	31	**12,340**	11,898
NET ASSETS		**630,540**	583,614
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	35	**26,874**	26,874
Reserves	36	**603,666**	556,740
TOTAL EQUITY		**630,540**	583,614

Approved by the Board of Directors on 1 April 2009 and signed on its behalf by:

WANG Kin Chung, Peter
Director

MAK WANG Wing Yee, Winnie
Director

The accompanying notes form an integral part of this financial statement.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company				
	Share capital	**Reserves**	**Total**	**Minority interests**	**Total equity**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
As at 1 January 2008	**26,874**	**956,113**	**982,987**	**487**	**983,474**
Fair value gains on net investment hedge	**–**	**19,668**	**19,668**	**–**	**19,668**
Fair value gains on cash flow hedges	**–**	**14,208**	**14,208**	**–**	**14,208**
Deferred income tax charged to equity	**–**	**(465)**	**(465)**	**–**	**(465)**
Currency translation differences	**–**	**(20,299)**	**(20,299)**	**(10)**	**(20,309)**
Net income recognised directly in equity	**–**	**13,112**	**13,112**	**(10)**	**13,102**
Profit for the year	**–**	**102,517**	**102,517**	**(35)**	**102,482**
Total recognised income and expenses for the year	**–**	**115,629**	**115,629**	**(45)**	**115,584**
	26,874	**1,071,742**	**1,098,616**	**442**	**1,099,058**
Share option scheme – value of employee services	**–**	**356**	**356**	**–**	**356**
Dividends paid to equity holders of the Company	**–**	**(48,372)**	**(48,372)**	**–**	**(48,372)**
As at 31 December 2008	**26,874**	**1,023,726**	**1,050,600**	**442**	**1,051,042**

	Attributable to equity holders of the Company				
	Share capital	Reserves	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2007	26,874	849,708	876,582	15,542	892,124
Deferred income tax charged to equity	–	(643)	(643)	–	(643)
Currency translation differences	–	27,845	27,845	1,380	29,225
Net income recognised directly in equity	–	27,202	27,202	1,380	28,582
Profit for the year	–	130,263	130,263	1,991	132,254
Total recognised income and expenses for the year	–	157,465	157,465	3,371	160,836
	26,874	1,007,173	1,034,047	18,913	1,052,960
Dividends paid to equity holders of the Company	–	(51,060)	(51,060)	–	(51,060)
Dividend paid to a minority shareholder of a subsidiary	–	–	–	(8,260)	(8,260)
Decrease in minority interests on acquisitions of additional interests in subsidiaries	–	–	–	(10,166)	(10,166)
As at 31 December 2007	26,874	956,113	982,987	487	983,474

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Operating activities			
Cash generated from operations	40(a)	**242,123**	167,979
Income tax paid		**(19,344)**	(15,126)
Income tax refund		**2,301**	3,164
Purchase of tax reserve certificates		**(10,152)**	(13,396)
Payment of license fees		**(10,366)**	(10,160)
Net cash generated from operating activities		**204,562**	132,461
Investing activities			
Interest received		**8,008**	11,758
Purchase of property, plant and equipment		**(165,423)**	(90,898)
Purchase of leasehold land and land use rights		**–**	(422)
Proceeds from disposals of property, plant and equipment and leasehold land	40(b)	**2,292**	5,474
Proceeds from disposals of investment properties		**23,990**	–
Proceeds from disposal of an investment		**–**	44
Proceeds from termination of a license right		**–**	7,820
Acquisitions of additional interests in subsidiaries		**–**	(9,388)
Acquisition of a subsidiary	41(b)	**(94,127)**	–
Net cash used in investing activities		**(225,260)**	(75,612)
Financing activities			
Interest paid		**(9,159)**	(10,203)
Dividends paid to equity holders of the Company		**(48,372)**	(51,060)
Dividends paid to a minority shareholder of a subsidiary		**–**	(8,260)
New bank borrowings		**1,136,967**	884,190
Repayment of bank borrowings		**(1,153,217)**	(820,724)
Net cash used in financing activities		**(73,781)**	(6,057)
(Decrease)/Increase in cash and cash equivalents		**(94,479)**	50,792
Cash and cash equivalents at beginning of the year		**389,398**	331,257
Effect on foreign exchange rate changes		**5,430**	7,349
Cash and cash equivalents at end of the year		**300,349**	389,398

The accompanying notes form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Tristate Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The address of its head office and principal place of business in Hong Kong is 5th Floor, 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong.

The principal activities of the Company and its subsidiaries (together, the "Group") are (i) garment manufacturing, and (ii) branded product distribution, retail and trading.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") since 1988.

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors of the Company (the "Board") on 1 April 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements comprise the consolidated and the Company's balance sheets 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.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented.

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention, as modified by the revaluation of the freehold land and buildings at fair values, and stating certain derivative instruments at fair values.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(i) Interpretations to existing standards effective in 2008

In 2008, the Group adopted the following interpretations which are effective for accounting periods beginning on or after 1 January 2008 and are relevant to the Group's operations. The impact on the Group's accounting policies upon the adoption is set out below:

- HK(IFRIC*) – Interpretation 11, 'HKFRS 2 – Group and Treasury Share Transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have any impact on the Group's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(i) Interpretations to existing standards effective in 2008 (Continued)

- HK(IFRIC) – Interpretation 14, 'HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The adoption of HK(IFRIC) – Interpretation 14 has no impact on the Group's financial statements, as economic benefit in the form of refund is available to the Group upon full settlement of the plan liabilities.

*IFRIC: International Financial Reporting Interpretations Committee

(ii) Amendment and interpretation to existing standards effective in 2008 but not relevant to the Group's operations

The following amendment and interpretation to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the Group's operations:

- HKAS 39, 'Financial Instruments: Recognition and Measurement', amendment on reclassification of financial assets out of the held-for-trading and available-for-sale categories upon specified conditions.

- HK(IFRIC) – Interpretation 12, 'Service Concession Arrangements'.

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), 'Presentation of Financial Statements' (effective for annual period starting from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated statement of financial position as at the beginning comparative period in addition to the current requirement to present statement of financial positions at the end of the current period and comparative period. The Group will apply the presentation under HKAS 1 (Revised) from 1 January 2009. It is likely that both the consolidated income statement and consolidated statement of comprehensive income will be presented as performance statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

- HKAS 23 (Revised), 'Borrowing Costs' (effective for annual period starting from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) retrospectively from 1 January 2009. The amendment has no impact on the Group's financial statements as the Group's existing accounting policy on borrowing costs complies with the revised requirements.

- HKAS 27 (Revised), 'Consolidated and Separate Financial Statements' (effective for annual period starting from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- HKFRS 2 (Amendment), 'Share-based Payment – Vesting Conditions and Cancellations' (effective for annual period starting from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such, these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009, but it is not expected to have a material impact on the Group's financial statements.

- HKFRS 3 (Revised), 'Business Combinations' (effective for annual period starting from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are to be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- HKFRS 8, 'Operating Segments' (effective for annual period starting from 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment Reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes to the chief operating decision maker. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by the management, but it appears that the manner in which the segments are reported will not change significantly.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

- HK(IFRIC) – Interpretation 13, 'Customer Loyalty Programmes' (effective for annual period starting from 1 July 2008). HK(IFRIC) – Interpretation 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group will apply HK(IFRIC) – Interpretation 13 from 1 January 2009 but it is not expected to have any material impact on the Group's financial statements.

- HK(IFRIC) – Interpretation 16, 'Hedges of a Net Investment in a Foreign Operation' (effective for annual period starting from 1 October 2008). HK(IFRIC) – Interpretation 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of HKAS 21, 'The Effects of Changes in Foreign Exchange Rates', do apply to the hedged item. The Group will apply HK(IFRIC) – Interpretation 16 from 1 January 2009, but it is not expected to have any material impact on the Group's financial statements.

- Amendments in relation to HKICPA's annual improvements project published in October 2008:

  – HKAS 1 (Amendment), 'Presentation of Financial Statements' (effective for annual period starting from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, 'Financial Instruments: Recognition and Measurement' are examples of current assets and liabilities respectively. The Group will apply HKAS 1 (Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

  – HKAS 19 (Amendment), 'Employee Benefits' (effective for annual period starting from 1 January 2009). The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. In addition, the distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered. HKAS 19 (Amendment) has also been amended to be consistent with HKAS 37, 'Provision, Contingent Liabilities and Contingent Assets', which requires contingent liabilities to be disclosed, not recognised. The Group will apply HKAS 19 (Amendment) from 1 January 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(iii) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group* (Continued)

- Amendments in relation to HKICPA's annual improvements project published in October 2008 (Continued):

  – HKAS 23 (Amendment), 'Borrowing Costs' (effective for annual period starting from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 'Financial Instruments: Recognition and Measurement'. This eliminates the inconsistency of the terms between HKAS 39 and HKAS 23. The Group will apply HKAS 23 (Amendment) prospectively from 1 January 2009, but it is not expected to have any impact on the Group's financial statements as its existing accounting policy on borrowing costs complies with the amended requirements.

  – HKAS 27 (Amendment), 'Consolidated and Separate Financial Statements' (effective for annual period starting from 1 January 2009). Where an investment in a subsidiary that is accounted for under HKAS 39, 'Financial Instruments: Recognition and Measurement', is classified as held for sale under HKFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations', HKAS 39 would continue to be applied. The amendment will not have any impact on the Group's operations because it is the Group's policy for an investment in subsidiary to be recorded at cost in the stand-alone financial statements of each entity.

  – HKAS 28 (Amendment), 'Investments in Associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial Instruments: Disclosures') (effective for annual period starting from 1 January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply HKAS 28 (Amendment) to impairment tests relating to investments in associates and any related impairment losses from 1 January 2009.

  – HKAS 36 (Amendment), 'Impairment of Assets' (effective for annual period starting from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value in use calculation should be made. The Group will apply HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

  – HKAS 38 (Amendment), 'Intangible Assets' (effective for annual period starting from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. An expense is therefore recognised when an entity has a right to access or receipt of goods and services. The Group will apply HKAS 38 (Amendment) from 1 January 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(iii) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group* (Continued)

- Amendments in relation to HKICPA's annual improvements project published in October 2008 (Continued):

  – HKAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement' (effective for annual period starting from 1 January 2009). The amendment relevant to the Group clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge. In addition, the definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition. The Group will apply HKAS 39 (Amendment) from 1 January 2009.

  – There are a number of minor amendments to HKFRS 7, 'Financial Instruments: Disclosures', HKAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', HKAS 10, 'Events After the Balance Sheet Date', HKAS 18, 'Revenue' and HKAS 34, 'Interim Financial Reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

(iv) *Amendments and interpretations to existing standards that are not yet effective and are not relevant to the Group's operations*

The following amendments and interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2009 or later periods but are not relevant to the Group's operations:

- HKAS 32 (Amendment), 'Financial Instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation' (effective from 1 January 2009).

- HKFRS 1 (Amendment), 'First-time Adoption of HKFRS' and HKAS 27 'Consolidated and Separate Financial Statements' (effective from 1 January 2009), which allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements.

- HK(IFRIC) – Interpretation 15, 'Agreements for Construction of Real Estates' (effective from 1 January 2009).

- HK(IFRIC) – Interpretation 17, 'Distributions of Non-cash Assets to Owners' (effective from 1 January 2009).

- HK(IFRIC) – Interpretation 18, 'Transfers of Assets from Customers' (effective from 1 July 2009).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(iv) *Amendments and interpretations to existing standards that are not yet effective and are not relevant to the Group's operations* (Continued)

- Amendments in relation to HKICPA's annual improvements project published in October 2008:

  – HKAS 16 (Amendment), 'Property, Plant and Equipment' (and consequential amendment to HKAS 7, 'Statement of Cash Flows') (effective from 1 January 2009).

  – HKAS 20 (Amendment), 'Accounting for Government Grants and Disclosure of Government Assistance' (effective from 1 January 2009).

  – HKAS 29 (Amendment), 'Financial Reporting in Hyperinflationary Economies' (effective from 1 January 2009).

  – HKAS 31 (Amendment), 'Interests in Joint Ventures' (and consequential amendments to HKAS 32 and HKFRS 7) (effective from 1 January 2009).

  – HKAS 40 (Amendment), 'Investment Property' (and consequential amendments to HKAS 16) (effective from 1 January 2009).

  – HKAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009).

  – HKFRS 5 (Amendment), 'Non-current Assets Held for Sale and Discontinued Operations' (and consequential amendment to HKFRS 1, 'First-time Adoption') (effective from 1 July 2009).

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(i) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Consolidation (Continued)

(i) Subsidiaries (Continued)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2(r)). The results of the subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(ii) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between the consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired.

(iii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill identified on acquisition, net of any accumulated impairment loss. See Note 2(r) the impairment of non-financial assets including goodwill.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK$, the Company's presentation currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign currency translation (Continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

(iii) Group companies

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Property, plant and equipment

Freehold land and buildings are shown at fair value less subsequent depreciation for buildings. Revaluations are performed by professional valuers with sufficient regularity, generally every three to five years, to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical costs include expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment (Continued)

Increases in the carrying amount arising on revaluation of freehold land and buildings are credited to the assets revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against the assets revaluation reserve directly in equity; all other decreases are expensed in the consolidated income statement.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	2% – 10%
Plant and machinery	10% – 20%
Leasehold improvements, furniture, fixtures and equipment	4% – 33%
Motor vehicles	14% – 20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(r)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognised within other gains in the consolidated income statements. When revalued assets are sold, the amounts included in assets revaluation reserve are transferred to retained earnings.

(e) Investment properties

Investment properties are properties which are not occupied by the companies in the Group and are held by the Group to earn rental income. The building component of the leasehold investment properties is stated at cost less accumulated depreciation and accumulated impairment losses, if any. The land component is accounted for as lease premium for leasehold land.

Depreciation of the building component is calculated using straight-line method to allocate cost over their estimated useful lives of 10 to 50 years.

(f) Leasehold land and land use rights

The premiums paid to acquire leasehold land and land use rights are recorded as prepayment for operating lease, and are amortised on a straight-line basis over the period of the leases and land use rights. Where there is impairment, the impairment is expensed immediately in the consolidated income statement.

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Intangible assets (Continued)

(ii) License rights/License fees payable

License rights on branded products are stated at cost less accumulated amortisation and accumulated impairment losses, if any. License rights are initially measured as the fair value of the consideration given for the recognition of the license rights at the time of the inception. The consideration given is determined based on the capitalisation of the minimum license fee payments in accordance with the license agreements. License rights are amortised over the license period on the basis that reflects the pattern in which the license's future economic benefits are expected to be consumed by the Group.

License fees payable in respect of the inception of the license rights is initially recognised at fair value of the consideration given for the recognition of the license rights at the time of the inception, which represents present values of contractual minimum payments that can be reliably estimated at the time of the inception. It is subsequently stated at amortised cost using the effective interest method.

Interest is accrued on license fees payable and charged to interest expense. Changes in estimates of the expected cash flows are recognised as other gains in the income statement. The revised expected cash flows are discounted using the original effective interest rate to arrive at the carrying amount of the liability.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the specific identification method or the first-in, first-out method. The cost of finished goods and work in progress comprises raw materials, direct labour and direct production overheads. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(i) Accounts receivable and bills receivable

Accounts receivable and bills receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable and bills receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within general and administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses in the consolidated income statement.

(j) Accounts payable and bills payable

Accounts payable and bills payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax interest rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(l) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits

The Group maintains a number of defined benefit and defined contribution plans in the countries in which it operates, the assets of which are generally held in separate trustees-administered funds. The retirement plans are generally funded by payments from employees and by the Group and, where applicable, taking account of the recommendations of qualified actuaries.

The Group's contributions to the defined contribution retirement schemes are expensed in the income statement as incurred and are reduced by contributions forfeited with respect to employees who leave the scheme prior to vesting fully in the contributions.

For defined benefit plans, retirement benefit costs are assessed using the projected unit credit method. The cost of providing retirement benefit plans is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans each year. The retirement benefit obligation is measured as the present value of the estimated future cash outflows discounted by using interest rates of government securities or high quality corporate bonds which have terms to maturity approximating the terms of the related liabilities. Actuarial gains and losses are recognised over the average remaining service live of employees to the extent of the amount in excess of 10% of the greater of the present value of the retirement benefit obligation and the fair value of plan assets. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Employee benefits (Continued)

(iii) Share-based compensation

The Group operates a share-based compensation plan, under which the entity receives services from employees as consideration for share options of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(m) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liabilities for at least 12 months after the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Borrowing costs

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of the time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(p) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and commission income in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Commission income is recognised when services are rendered.

Rental income is recognised on a straight-line basis over the lease term.

Interest income is recognised on a time-proportion basis using the effective interest method.

(q) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives from the lessor), are expensed in the consolidated income statement on a straight-line basis over the period of the lease.

(r) Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(s) Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's equity holders.

(t) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns different from those of other business segments. A geographical segment engaged in providing products or services with a particular economic environment that are subject to risks and returns different from those segments operating in other economic environments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Segment reporting (Continued)

Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, intangible assets, inventories, receivables and operating cash and exclude mainly land and building not in use, investment properties and income tax assets. Segment liabilities comprise operating liabilities and exclude income tax liabilities. Capital expenditure comprises additions to property, plant and equipment, leasehold land and land use rights, investments in associates and intangible assets, including additions resulting from acquisitions through business combinations.

In respect of geographical segment reporting, sales are based on the countries/places in which the customers are located, and segment assets and capital expenditure are where the assets are located.

(u) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term deposits within original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(v) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, it will then be recognised as an asset.

(w) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are deducted in arriving at the carrying amount of the related asset. The grant is recognised as income over the life of the depreciable asset by way of a reduced depreciation charge.

(x) Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through a continuing use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Financial guarantees

A financial guarantee (a type of insurance contract) is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument. The Group does not recognise liabilities for financial guarantees at inception, but performs a liability adequacy test at each reporting date by comparing its net liability regarding the financial guarantee with the amount that would be required if the financial guarantee were to result in a present legal or constructive obligation. If the liability is less than the amount of the present legal or constructive obligation, the entire difference is recognised in the income statement immediately.

(z) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(i) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or

(ii) hedges of a net investment in a foreign operation (net investment hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 24. Movements on the hedging reserve/translation reserve in shareholders' equity are shown in Note 36. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement within other gains.

Amounts accumulated in equity are recycled in the consolidated income statement within sales and general and administrative expenses as appropriate in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement within other gains.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Derivative financial instruments and hedging activities (Continued)

(b) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement within other gains.

Gains and losses accumulated in equity are included in the consolidated income statement when the foreign operation is partially disposed of or sold.

(c) Derivatives at fair value through profit or loss and accounted for at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the consolidated income statement within other gains.

(aa) Share capital

Ordinary shares are classified as equity.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, accounts receivable, bills receivable, other receivables, derivative financial instruments, amounts due to associates, bank borrowings, accounts payable, bills payable, accruals and other payables and license fees payable and other long-term liabilities.

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The ongoing global financial crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and very high volatility in the stock and currency markets. The global economic crisis has also led to current or potential recession in major economies. Indeed the full extent of the impact of the ongoing financial and economic crisis is proving to be difficult to anticipate or completely guard against. Management has taken necessary measures to manage the sustainability and growth of the Group's business in the current circumstances.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group operates internationally and is thus exposed to foreign exchange risk arising from various currency exposures. The Group manages significant foreign exchange risk against the respective subsidiaries' functional currencies arising from future commercial transactions and recognised assets and liabilities by means of forward foreign exchange contracts.

For the year ended 31 December 2008, sales of the goods were mainly denominated in United States dollars and Pound Sterling. The major currencies for purchases were United States dollars. In addition, entities within the Group (whose functional currencies are Renminbi, Philippine Pesos and Thai Bahts) have monetary assets and liabilities denominated in Hong Kong dollars and United States dollars.

The Group has entered into forward foreign exchange contracts to hedge against its net investment in the United Kingdom. Further, the Group has entered into several forward foreign exchange contracts to hedge against the foreign exchange exposures arising from Renminbi for expenses payment for factories in the People's Republic of China (the "PRC"), Pound Sterling for sales receipts from customers and Euro for purchase payment to suppliers.

In relation to foreign exchange risks mentioned above, as at 31 December 2008, if Pound Sterling against Hong Kong dollars had been strengthened/weakened by 9% with all other variables held constant, the post-tax profit for the year and the equity would be decreased/increased by HK$1,306,000 and HK$6,108,000 respectively, mainly as a result of the change in fair value of forward foreign exchange contracts at the balance sheet date.

As at 31 December 2008, if Renminbi against Hong Kong dollars had been strengthened/weakened by 2% with all other variables held constant, post-tax profit for the year would be increased/decreased by HK$1,708,000 mainly as a result of foreign exchange gains/losses on translation of Hong Kong dollars denominated net liabilities of the PRC subsidiaries; while the equity would be increased/decreased by HK$3,247,000, representing the change in fair value of forward foreign exchange contracts at the balance sheet date.

If Philippine Pesos and Thai Bahts had strengthened/weakened against Hong Kong dollars by 2% at the year end with all other variables held constant, the effect on post-tax profit for the year would not be significant.

Profit and equity are more sensitive to movement in foreign exchange rates in 2008 than 2007 because of the relative increase in the Group's presence in the European Region after acquisition of a subsidiary.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk

The Group's cash flow and fair value interest rate risk primarily relates to bank balances and bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The management of the Group monitors the related interest rate risk exposure closely and will consider hedging significant interest rate risk exposure should the need arise.

As at 31 December 2008, if interest rate on borrowings had increased/decreased by 0.5% with all other variables held constant, the effect on post-tax profit for the year would not be significant.

(b) Liquidity risk

The Group has been prudent in liquidity risk management by maintaining sufficient cash and the availability of sufficient funding through an adequate amount of committed credit facilities from the Group's bankers.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year *HK$'000*	**Between 1 and 2 years** *HK$'000*	**Between 2 and 5 years** *HK$'000*	**Total** *HK$'000*
As at 31 December 2008				
Accounts payable and bills payable	**185,269**	**–**	**–**	**185,269**
Accruals and other payables	**190,024**	**–**	**–**	**190,024**
Bank borrowings and interest payment	**211,303**	**–**	**–**	**211,303**
License fees payable	**12,139**	**18,245**	**126,175**	**156,559**
Other long-term liabilities	**3,470**	**3,635**	**4,010**	**11,115**
	602,205	**21,880**	**130,185**	**754,270**

	Less than 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*	Total *HK$'000*
As at 31 December 2007				
Accounts payable and bills payable	184,029	–	–	184,029
Accruals and other payables	163,145	–	–	163,145
Bank borrowings and interest payment	229,389	–	–	229,389
License fees payable	657	2,239	19,125	22,021
	577,220	2,239	19,125	598,584

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Credit risk

Credit risk mainly arises from cash and cash equivalents, deposits with banks and financial institutions, derivative financial instruments, and outstanding receivables from customers.

Under the ongoing global financial and economic crisis, customers of the Group may be affected by the worsen economic conditions and lower liquidity situation, and hence will impact the Group' credit risk. The Group's sales are mainly covered by letters of credit. The remaining portion of the sales is on open account, which is substantially covered by credit insurance. Derivative counter parties and cash transactions are limited to high-credit-quality financial institutions. As at 31 December 2008, all bank balances and bank deposits were held at reputable financial institutions. Deteriorating operating conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in the assets impairment assessment.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to operate in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

Total capital comprises 'equity' as shown in the consolidated balance sheet plus net borrowing, if any. During the years ended 31 December 2008 and 2007, the Group had no net borrowings, which is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or reduce debt.

3.3 Fair value estimation

The carrying values of accounts receivable less impairment provision and accounts payable are reasonable approximation of their fair values. The fair value of derivative financial instruments (forward foreign exchange contracts) is determined using forward exchange market rates at the balance sheet date. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

Estimates and judgement are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldomly equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT (Continued)

(a) Useful lives, residual values and depreciation of property, plant and equipment

The management of the Group determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

(b) Estimated impairment of property, plant and equipment, leasehold land and land use rights, investment properties, investments in associates and license rights

The Group assesses annually whether property, plant and equipment, leasehold land and land use rights, investment properties, investments in associates and license rights have any indication of impairment. The recoverable amounts have been determined based on value in use calculations or market valuations. These calculations require the use of judgement and estimates.

(c) Income taxes and deferred income tax

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters are different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determinations are made.

Deferred income tax assets relating to temporary differences and tax losses are recognised when management expects it is probable that future taxable profits will be available to utilise against the temporary differences or tax losses. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets in the period in which such estimates have been changed.

(d) Estimated impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of the receivables. Provisions are applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of receivables requires the use of judgement and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of receivables in the period in which such estimates have been changed.

(e) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(g)(i). The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates. Management believes that any reasonable possible change in any of these assumptions would not cause the aggregate carrying amounts of cash-generating units to exceed their recoverable amounts.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT (Continued)

(f) Estimated write-downs of inventories to net realisable value

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of inventories in the period in which such estimates have been changed.

(g) Retirement benefits

The determination of the Group's liabilities under defined benefit plans and long service payment liabilities depends on a number of factors relating to an actuarial valuation using a number of assumptions. The key assumptions are disclosed in Note 31(b) and (c). Any changes in these assumptions will impact the carrying amount of the retirement benefit obligations in the period in which such assumptions have been changed.

5. REVENUE/INCOME AND SEGMENT INFORMATION

(a) Revenue/income by nature

	2008	2007
	HK$'000	*HK$'000*
Revenue		
Sales of goods	**3,474,976**	2,894,776
Commission income	**16,654**	18,542
	3,491,630	2,913,318
Other income and other gains/(losses)		
Net gain on disposals of investment properties	**17,567**	–
Net (loss)/gain on disposals of property, plant and equipment	**(1,277)**	1,955
Net loss on disposals of leasehold land	**(996)**	–
Rental income from investment properties	**1,283**	1,807
Gain on disposal of an investment	**–**	43
Gain arising on termination of a license right *(Note 19)*	**–**	11,428
Change in fair value of derivative financial instruments	**2,792**	–
Gain on ineffectiveness arising from net investment hedge	**1,113**	–
Contribution from a customer	**2,240**	–
Government incentive on reinvestment of profit	**–**	5,356
Quota income	**494**	4,523
Insurance claim income	**1,634**	–
Sundry income	**621**	149
	25,471	25,261
	3,517,101	2,938,579

5. REVENUE/INCOME AND SEGMENT INFORMATION (Continued)

(b) Primary reporting format – Business segments

The Group conducts majority of its business activities in two segments: (i) garment manufacturing, and (ii) branded product distribution, retail and trading.

The garment manufacturing segment represents manufacturing of garment products, primarily under OEM (Original Equipment Manufacturing) arrangements to customers in the United States of America, Europe and Asia. The branded product distribution, retail and trading segment represents the distribution, retail and trading of branded products in Asia.

The segment results are as follows:

	Garment manufacturing		Branded product distribution, retail and trading		Total	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**3,159,593**	2,592,858	**332,037**	320,460	**3,491,630**	2,913,318
Segment results	**84,351**	112,734	**16,601**	35,627	**100,952**	148,361
Net gain on disposals of investment properties					**17,567**	–
Net rental income from investment properties					**1,038**	1,471
Finance income	**6,759**	10,726	**1,249**	1,032	**8,008**	11,758
Finance costs	**(9,558)**	(10,202)	**(2,836)**	(1,990)	**(12,394)**	(12,192)
Gain from acquisitions of additional interests in subsidiaries	**–**	195	**–**	8	**–**	203
Share of losses of associates	**(2,696)**	–	**–**	–	**(2,696)**	–
Provision for impairment in an associate	**(2,775)**	–	**–**	–	**(2,775)**	–
Profit before income tax					**109,700**	149,601
Income tax expense					**(7,218)**	(17,347)
Profit for the year					**102,482**	132,254

5. REVENUE/INCOME AND SEGMENT INFORMATION (Continued)

(b) Primary reporting format – Business segments (Continued)

	Garment manufacturing		Branded product distribution, retail and trading		Unallocated		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**1,644,519**	1,577,574	**273,516**	145,199	**26,584**	25,494	**1,944,619**	1,748,267
Segment liabilities	**588,173**	575,187	**178,101**	52,775	**127,303**	136,831	**893,577**	764,793
Net assets							**1,051,042**	983,474
Capital expenditure	**201,043**	82,237	**135,119**	27,352	**–**	–	**336,162**	109,589
Depreciation on property, plant and equipment	**51,325**	46,861	**5,613**	2,764	**393**	1,463	**57,331**	51,088
Provision for impairment of property, plant and equipment	**–**	–	**4,025**	–	**–**	–	**4,025**	–
Amortisation of leasehold land and land use rights	**735**	687	**–**	–	**121**	112	**856**	799
Depreciation on investment properties	**–**	–	**–**	–	**35**	189	**35**	189
Amortisation of license rights	**–**	–	**5,478**	10,162	**–**	–	**5,478**	10,162
Provision for impairment of receivables	**1,387**	60	**55**	176	**–**	–	**1,442**	236
Net write-down of inventories to net realisable value	**18,176**	15,741	**2,146**	1,293	**–**	–	**20,322**	17,034

Unallocated assets mainly include land and buildings not in use, investment properties and income tax assets. Unallocated liabilities represent income tax liabilities.

Capital expenditure comprises additions to property, plant and equipment, leasehold land and land use rights, investments in associates and intangible assets, including additions resulting from acquisition through business combination.

5. REVENUE/INCOME AND SEGMENT INFORMATION (Continued)

(c) Secondary reporting format – Geographical segments

The Group's revenue is derived from customers located in the United States of America, Asia and Europe, while the Group's production facilities and other assets are located predominantly in the PRC and Thailand. The PRC includes the mainland of the PRC (the "Mainland China"), Hong Kong and Macau. An analysis of the Group's external revenue by location of customers and an analysis of the Group's assets and capital expenditure by location of assets are as follows:

	The United States of America		Europe		Asia		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
External revenue	**2,094,412**	2,153,611	**817,544**	291,369	**579,674**	468,338	**3,491,630**	2,913,318

	PRC		Thailand		Other locations		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**1,459,482**	1,324,828	**173,806**	228,328	**311,331**	195,111	**1,944,619**	1,748,267
Capital expenditure	**287,981**	101,627	**883**	754	**47,298**	7,208	**336,162**	109,589

6. PROFIT FROM OPERATIONS

Profit from operations is stated after crediting and charging the following:

	2008	2007
	HK$'000	*HK$'000*
Crediting		
Net rental income from investment properties	**1,038**	1,471
Net exchange gain	**–**	4,146
Charging		
Depreciation on property, plant and equipment	**57,331**	51,088
Provision for impairment of property, plant and equipment	**4,025**	–
Depreciation on investment properties	**35**	189
Amortisation of leasehold land and land use rights	**856**	799
Amortisation of license rights	**5,478**	10,162
Provision for impairment of receivables	**1,442**	236
Net write-down of inventories to net realisable value	**20,322**	17,034
Employment expenses *(Note 12)*	**703,021**	609,456
Operating lease rental in respect of land and buildings	**60,512**	37,009
Auditors' remuneration	**5,312**	3,767
Net exchange loss	**2,402**	–

7. FINANCE INCOME/FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
Finance income		
Interest income from bank deposits	**8,008**	11,758
Finance costs		
Interest on bank loans	**9,159**	10,203
Imputed interest on license fees payable	**2,836**	1,989
Imputed interest on other long-term liabilities	**399**	–
	12,394	12,192

8. INCOME TAX EXPENSE

	2008	2007
	HK$'000	*HK$'000*
Current income tax		
Hong Kong profits tax	**8,912**	22,824
Non-Hong Kong tax	**13,500**	6,433
Deferred income tax	**(15,194)**	(11,910)
	7,218	17,347

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits. Income taxes on non-Hong Kong profits have been calculated on the estimated assessable profits at the applicable income tax rates prevailing in the countries/places in which the Group operates.

Subsidiaries established and operated in the Mainland China are subject to the Mainland China Enterprise Income Tax at the rates ranging from 18% to 25% for the year (2007: 10% to 33%). In accordance with the applicable tax regulations in the Mainland China, certain subsidiaries are entitled to income tax exemptions and reductions.

8. INCOME TAX EXPENSE (Continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits on the Group companies as follows:

	2008	2007
	HK$'000	*HK$'000*
Profit before income tax	**109,700**	149,601
Add: Share of losses of associates	**2,696**	–
	112,396	149,601
Tax calculated at weighted average tax rate applicable to profits in the respective countries/places	**(5,522)**	23,557
Income not subject to tax	**(10,584)**	(7,291)
Expenses not deductible for tax	**8,021**	5,875
Utilisation of previously unrecognised tax losses	**(2,487)**	(741)
Unrecognised current year tax losses	**18,218**	2,352
Net under/(over)-provision in prior years	**215**	(4,512)
Net increase in net deferred tax assets resulting from change in tax rates	**(643)**	(1,893)
Income tax expense	**7,218**	17,347

During the year, as a result of the change in the Hong Kong profits tax rate and the Mainland China Enterprise Income Tax rates, deferred tax balances have been remeasured. Deferred taxes expected to reverse from the year ending 31 December 2009 have been remeasured using the new rates.

The weighted average applicable domestic tax rate was -5% for the year ended 31 December 2008 (2007: 16%). The decrease is caused by a change in mix of profits earned by different Group companies which are subject to different tax rates and the reversal of deferred income tax liabilities in respect of unremitted retained earnings of certain subsidiaries as a result of current year loss incurred by these subsidiaries.

There were no share of income tax expenses of associates for the year ended 31 December 2008 (2007: Nil) included in the consolidated income statement as share of losses of associates.

In early 2006, the Hong Kong Inland Revenue Department (the "HK IRD") initiated a tax audit on certain companies within the Group for the years of assessment from 1999/2000 (financial year ended 31 December 1999) to 2004/2005 (financial year ended 31 December 2004). The HK IRD has issued protective assessments to some of these companies for the years of assessment 1999/2000, 2000/2001, 2001/2002 and 2002/2003 in view of the statutory time bar. During the course of the tax audit, further protective assessments for subsequent years may be raised by the HK IRD with respect to these companies. Since the tax audit is ongoing, its outcome cannot be readily ascertained with any degree of accuracy. The management of the Group has reviewed the situation and, after seeking necessary professional advice, considers that sufficient tax related provisions have been made in the consolidated financial statements in respect of the protective assessments which the Group had received.

9. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$94,942,000 (2007: HK$83,690,000).

10. DIVIDENDS

	2008	2007
	HK$'000	*HK$'000*
Interim dividend paid – HK$0.06 (2007: HK$0.08) per share	**16,124**	21,499
Final dividend proposed – HK$0.09 (2007: HK$0.12) per share	**24,186**	32,248
	40,310	53,747

A final dividend for the year ended 31 December 2008 of HK$0.09 per share, totalling HK$24,186,000 (2007: HK$0.12 per share, totalling HK$32,248,000), is recommended by the Board for approval at the forthcoming annual general meeting of the Company. This proposed dividend has not been dealt with as dividend payable as at 31 December 2008, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2009.

11. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the consolidated profit attributable to equity holders of the Company for the year ended 31 December 2008 of HK$102,517,000 (2007: HK$130,263,000) by the weighted average number of shares in issue during the year of 268,735,253 (2007: 268,735,253).

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares granted under the Company's share option scheme. As the exercise price of the share options granted by the Company was higher than the average market price of the Company's shares for the period from the date of grant to 31 December 2008, those outstanding share options granted, which amounted to 1,788,000 shares as at 31 December 2008, have no dilutive effect on earnings per share for the year ended 31 December 2008.

12. EMPLOYMENT EXPENSES

	2008	2007
	HK$'000	*HK$'000*
Directors' emoluments *(Note 13)*	**8,227**	8,852
Wages, salaries, allowances and bonuses	**632,716**	546,927
Welfare and other benefits	**38,767**	34,328
Retirement benefits		
– Defined contribution plans	**20,125**	17,310
– Defined benefit plans *(Note 31(b))*	**(501)**	(950)
– Long service payment liabilities *(Note 31(c))*	**2,888**	2,415
– Others	**443**	574
Share-based compensation expense – share options granted *(Note 37)*	**356**	–
	703,021	609,456

13. DIRECTORS' EMOLUMENTS

Details of the directors' emoluments are set out below:

Name	Fees HK$'000	Salary and other benefits HK$'000	Discretionary bonuses HK$'000	Employer's contribution to retirement benefit schemes HK$'000	2008 Total HK$'000	2007 Total HK$'000
Executive Director:						
Mr. WANG Kin Chung, Peter	**2**	**4,602**	**2,050**	**139**	**6,793**	7,269
Non-Executive Directors:						
Ms. WANG KOO Yik Chun	**43**	**716**	**300**	**–**	**1,059**	1,106
Ms. Leslie TANG SCHILLING	**40**	**–**	**–**	**–**	**40**	60
Ms. MAK WANG Wing Yee, Winnie	**95**	**–**	**–**	**–**	**95**	100
Dr. WANG Shui Chung, Patrick	**30**	**–**	**–**	**–**	**30**	60
Independent Non-Executive Directors:						
Mr. LO Kai Yiu, Anthony	**80**	**–**	**–**	**–**	**80**	130
Mr. James Christopher KRALIK	**85**	**–**	**–**	**–**	**85**	70
Professor John Zhuang YANG (appointed on 28 August 2007)	**45**	**–**	**–**	**–**	**45**	27
Mr. YUAN Ching Man, James (resigned on 3 April 2007)	**–**	**–**	**–**	**–**	**–**	30
	420	**5,318**	**2,350**	**139**	**8,227**	8,852

No director waived his/her emoluments during the year (2007: Nil).

14. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2008 include one (2007: one) director, whose emoluments are disclosed in Note 13. Details of emoluments of the other four (2007: four) individuals are as follow:

	2008 HK$'000	2007 HK$'000
Salaries, allowances and other benefits	**12,089**	13,216
Discretionary bonuses	**1,271**	2,087
Contribution to retirement benefit schemes	**274**	262
	13,634	15,565

14. FIVE HIGHEST PAID INDIVIDUALS (Continued)

The emoluments of these four (2007: four) individuals are within the following bands:

	Number of employees	
	2008	2007
HK$2,000,001 – HK$2,500,000	**2**	–
HK$2,500,001 – HK$3,000,000	**–**	2
HK$3,000,001 – HK$3,500,000	**–**	1
HK$3,500,001 – HK$4,000,000	**1**	–
HK$4,500,001 – HK$5,000,000	**1**	–
HK$6,000,001 – HK$6,500,000	**–**	1
	4	4

During the year, no emoluments were paid to the five highest paid individuals as an inducement to join the Group or as compensation for loss of office (2007: Nil).

15. PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Freehold land+	Buildings+	Plant and machinery	Leasehold improvements, furniture, fixtures and equipment	Motor vehicles	Construction-in-progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2008							
Cost or valuation	91,381	257,882	327,188	232,435	23,946	20,683	953,515
Accumulated depreciation	–	(23,290)	(245,585)	(197,358)	(18,948)	–	(485,181)
Net book amount	91,381	234,592	81,603	35,077	4,998	20,683	468,334
Year ended 31 December 2008							
Opening net book amount	91,381	234,592	81,603	35,077	4,998	20,683	468,334
Acquisition of a subsidiary *(Note 41(a))*	–	–	1,068	1,623	1,851	–	4,542
Additions	–	73	5,658	19,809	435	139,448	165,423
Transfers/reclassifications	–	20,849	545	15	–	(21,409)	–
Disposals	–	(291)	(1,771)	–	(1,222)	–	(3,284)
Impairment	–	–	–	(4,025)	–	–	(4,025)
Depreciation	–	(22,930)	(15,697)	(16,574)	(2,130)	–	(57,331)
Exchange differences	(3,498)	(1,333)	(295)	433	259	2,113	(2,321)
Closing net book amount	87,883	230,960	71,111	36,358	4,191	140,835	571,338
As at 31 December 2008							
Cost or valuation	87,883	275,309	334,224	258,884	28,640	140,835	1,125,775
Accumulated depreciation and impairment	–	(44,349)	(263,113)	(222,526)	(24,449)	–	(554,437)
Net book amount	87,883	230,960	71,111	36,358	4,191	140,835	571,338

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Group (Continued)

	Freehold land+	Buildings+	Plant and machinery	Leasehold improvements, furniture, fixtures and equipment	Motor vehicles	Construction-in-progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2007							
Cost or valuation	86,399	218,616	300,594	215,434	24,212	61	845,316
Accumulated depreciation	–	–	(228,527)	(186,208)	(20,036)	–	(434,771)
Net book amount	86,399	218,616	72,067	29,226	4,176	61	410,545
Year ended 31 December 2007							
Opening net book amount	86,399	218,616	72,067	29,226	4,176	61	410,545
Additions	–	26,681	23,204	17,504	2,359	21,150	90,898
Transfers/reclassifications	–	–	(212)	639	105	(532)	–
Disposals	–	(577)	(989)	(843)	(124)	–	(2,533)
Depreciation	–	(20,612)	(16,363)	(12,520)	(1,593)	–	(51,088)
Exchange differences	4,982	10,484	3,896	1,071	75	4	20,512
Closing net book amount	91,381	234,592	81,603	35,077	4,998	20,683	468,334
As at 31 December 2007							
Cost or valuation	91,381	257,882	327,188	232,435	23,946	20,683	953,515
Accumulated depreciation	–	(23,290)	(245,585)	(197,358)	(18,948)	–	(485,181)
Net book amount	91,381	234,592	81,603	35,077	4,998	20,683	468,334

\+ Freehold land is located in Thailand, Taiwan and the Philippines. The buildings are located in the PRC, (including Hong Kong), Taiwan, Thailand and the Philippines. Apart from buildings located in the PRC with a net book amount of HK$46,530,000 constructed during the years ended 31 December 2007 and 2008, the freehold land and buildings were last revalued on 31 December 2006 by Vigers Appraisal & Consulting Limited, CB Richard Ellis (Thailand) Co., Ltd., CB Richard Ellis (Vietnam) Co. Ltd. and Jones Lang La Salle (Thailand) Ltd., independent valuers, on the basis of market value, with an aggregated value of HK$305,015,000. The net book value of freehold land and buildings as at 31 December 2008 would have been HK$257,936,000 (2007: HK$257,021,000) had they been stated at cost less accumulated depreciation.

Depreciation expense of HK$29,053,000 (2007: HK$29,659,000) is included in cost of sales, HK$4,530,000 (2007: HK$1,436,000) is included in selling and distribution expenses and HK$23,748,000 (2007: HK$19,993,000) is included in general and administrative expenses. Impairment of HK$4,025,000 (2007: Nil) is included in selling and distribution expenses.

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Company

	Plant and machinery *HK$'000*	**Leasehold improvements, furniture, fixtures and equipment** *HK$'000*	**Motor vehicles** *HK$'000*	**Total** *HK$'000*
As at 1 January 2008				
Cost	**33**	**20,173**	**1,824**	**22,030**
Accumulated depreciation	**(33)**	**(20,084)**	**(818)**	**(20,935)**
Net book amount	**–**	**89**	**1,006**	**1,095**
Year ended 31 December 2008				
Opening net book amount	**–**	**89**	**1,006**	**1,095**
Additions	**–**	**42**	**–**	**42**
Depreciation	**–**	**(83)**	**(310)**	**(393)**
Closing net book amount	**–**	**48**	**696**	**744**
As at 31 December 2008				
Cost	**33**	**18,113**	**1,824**	**19,970**
Accumulated depreciation	**(33)**	**(18,065)**	**(1,128)**	**(19,226)**
Net book amount	**–**	**48**	**696**	**744**

	Plant and machinery *HK$'000*	Leasehold improvements, furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
As at 1 January 2007				
Cost	33	22,706	1,824	24,563
Accumulated depreciation	(32)	(22,396)	(509)	(22,937)
Net book amount	1	310	1,315	1,626
Year ended 31 December 2007				
Opening net book amount	1	310	1,315	1,626
Additions	–	7	–	7
Disposals	–	(2)	–	(2)
Depreciation	(1)	(226)	(309)	(536)
Closing net book amount	–	89	1,006	1,095
As at 31 December 2007				
Cost	33	20,173	1,824	22,030
Accumulated depreciation	(33)	(20,084)	(818)	(20,935)
Net book amount	–	89	1,006	1,095

16. INVESTMENT PROPERTIES

	Group	
	2008	2007
	HK$'000	*HK$'000*
As at 1 January		
Cost	**2,800**	9,067
Accumulated depreciation and impairment	**(1,151)**	(1,405)
Net book amount	**1,649**	7,662
Year ended 31 December		
Opening net book amount	**1,649**	7,662
Depreciation	**(35)**	(189)
Disposals	**(549)**	–
Transfer to non-current asset held for sale	**–**	(5,824)
Closing net book amount	**1,065**	1,649
As at 31 December		
Cost	**1,725**	2,800
Accumulated depreciation and impairment	**(660)**	(1,151)
Net book amount	**1,065**	1,649

The investment properties are located in Hong Kong and are held under medium-term leases of 10 to 50 years.

Depreciation expense of HK$35,000 (2007: HK$189,000) is included in general and administrative expenses.

17. LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book amounts are analysed as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
In Hong Kong		
– Medium-term lease of 10 to 50 years	**3,550**	4,973
Outside Hong Kong		
– Medium-term lease of 10 to 50 years	**23,995**	23,593
– Short-term lease of less than 10 years	**279**	302
	24,274	23,895
	27,824	28,868

17. LEASEHOLD LAND AND LAND USE RIGHTS (Continued)

	2008 HK$'000	2007 HK$'000
As at 1 January		
Cost	**38,254**	37,290
Accumulated amortisation	**(9,386)**	(7,998)
Net book amount	**28,868**	29,292
Year ended 31 December		
Opening net book amount	**28,868**	29,292
Additions	**–**	422
Disposals	**(1,281)**	(986)
Amortisation	**(856)**	(799)
Transfer to non-current asset held for sale	**–**	(50)
Exchange differences	**1,093**	989
Closing net book amount	**27,824**	28,868
As at 31 December		
Cost	**37,836**	38,254
Accumulated amortisation	**(10,012)**	(9,386)
Net book amount	**27,824**	28,868

Amortisation of HK$451,000 (2007: HK$393,000) is included in cost of sales and HK$405,000 (2007: HK$406,000) is included in general and administrative expenses.

18. SUBSIDIARIES

(a) Investments in subsidiaries

	Company	
	2008 HK$'000	2007 HK$'000
Unlisted shares, at cost	**397,853**	397,639
Amount due from a subsidiary	**84,326**	78,324
Less: Accumulated impairment losses	**(240)**	(240)
	481,939	475,723

Amount due from a subsidiary, under investments in subsidiaries, is unsecured, interest free, without fixed term of repayment and is not expected to be repaid within the next 12 months. The balance is denominated in Hong Kong dollars.

(b) Amounts due from/to subsidiaries

Amounts due from/to subsidiaries, classified as current assets/liabilities, are unsecured, interest free, and are repayable on demand. The balances are denominated in Hong Kong dollars.

18. SUBSIDIARIES (Continued)

(c) Particulars of principal subsidiaries, all of which are unlisted, as at 31 December 2008:

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	by subsidiary	by Group
338 Apparel Limited	Hong Kong	Hong Kong	Branded product trading	HK$1,000,000	–	100%	100%
338-Apparel Company Limited	British Virgin Islands	United States of America	Liaison services	US$100	–	100%	100%
338 Fashion Co. Limited	Hong Kong	Hong Kong	Branded product distribution and retail	HK$3,000,000	–	100%	100%
338 Fashion (Macau) Company Limited	Macau	Macau	Branded product distribution and retail	MOP$25,000	–	100%	100%
A-Grade Garments Manufacturing Corporation	The Philippines	The Philippines	Garment manufacturing	P26,000,000	–	100%	100%
Advanced Fashions Technology Limited	British Virgin Islands	United States of America	Liaison services	US$1,000	100%	–	100%
All Asia Garment Industries, Inc.	The Philippines	The Philippines	Factory facilities leasing	P27,425,000	–	100%	100%
All Asia Industrial Co., Ltd.	Taiwan	Taiwan	Sales liaison services and sample making	NT$69,530,000	–	100%	100%
All Asia Industries Co., Ltd. *(Note (iii))*	PRC	PRC	Garment manufacturing	HK$53,500,000	–	100%	100%
All Asia Industries Limited	Hong Kong	Hong Kong	Investment holding	HK$4,000 (ordinary)	15%	85%	100%
				HK$1,500,600 (deferred) *(Note (i))*	15%	85%	100%
Apparel Trading & Property Ventures, Inc.	The Philippines	The Philippines	Investment holding	P7,500,000	–	100%	100%
Asia Wide Properties Company, Inc.	The Philippines	The Philippines	Investment holding	P5,500,000	–	100%	100%
Asia Wide Trading Co., Ltd.	Taiwan	Taiwan	General trading and sales liaison services	NT$6,600,000	–	100%	100%
Brilliant Idea International Limited	Hong Kong	Hong Kong	Investment holding	HK$100	–	100%	100%
昇韻管理咨詢(深圳)有限公司 *(Note (iii))*	PRC	PRC	Management consultancy services	RMB500,000	–	100%	100%
Chochuen Garment (Shenzhen) Co., Ltd. *(Note (iii))*	PRC	PRC	Garment manufacturing	HK$30,000,000	–	100%	100%

18. SUBSIDIARIES (Continued)

(c) Particulars of principal subsidiaries, all of which are unlisted, as at 31 December 2008 (Continued):

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
Dress Line Holdings, Inc.	The Philippines	The Philippines	Investment holding	P59,562,500 (common)	–	100%	100%
				P180,000,000 (preferred) *(Note (ii))*	–	100%	100%
Elite Fashion (Hong Kong) Limited	Hong Kong	Hong Kong	Sales and marketing services	HK$2	100%	–	100%
Elkin Trading Limited	Hong Kong	Hong Kong	Agency services	HK$100	–	100%	100%
Excellent Jade Limited	Hong Kong	Hong Kong	Garment trading and manufacturing	HK$10,000	–	100%	100%
Excellent Quality Apparel, Inc.	The Philippines	The Philippines	Garment manufacturing	P15,000,000	–	100%	100%
Fashion Express Company Limited	Thailand	Thailand	Inactive	THB100,000,000	–	99.86%	99.86%
Gold Flower Limited	Hong Kong	Hong Kong	General administrative and supporting services	HK$10,000	–	100%	100%
Guangzhou Excellent Fashion Design Company Limited *(Note (iii))*	PRC	PRC	Garment design and provision of technical services	RMB1,500,000	–	100%	100%
Guangzhou Tristate Industrial Co., Ltd. *(Note (iii))*	PRC	PRC	Garment manufacturing	HK$18,500,000	–	100%	100%
Hefei Tristate Garment Manufacturing Company Limited *(Note (iii))*	PRC	PRC	Garment manufacturing	RMB105,000,000	–	100%	100%
HFT Corp. Limited	Hong Kong	Hong Kong	Investment holding	HK$10,000,000	–	100%	100%
HT Trading Limited	Labuan, Malaysia	Macau	Garment trading and provision of services	US$1	–	99.87%	99.87%
Hua Thai Manufacturing Public Company Limited	Thailand	Thailand	Garment manufacturing and exporting	THB100,000,000	–	99.87%	99.87%
Hwa Fuh Manufacturing Company (Hong Kong) Limited	Hong Kong	Hong Kong	Garment trading and investment holding	HK$1,250,000	–	100%	100%
Joint Holdings & Trading Company Limited	Hong Kong	Hong Kong	Investment holding	HK$925 (ordinary)	–	100%	100%
				HK$7,200,075 (deferred) *(Note (i))*	–	100%	100%

18. SUBSIDIARIES (Continued)

(c) Particulars of principal subsidiaries, all of which are unlisted, as at 31 December 2008 (Continued):

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
Keybird Limited	Hong Kong	Hong Kong	Investment holding	HK$3,000,000	100%	–	100%
Keyear Company Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	100%	–	100%
Prime-Time Company Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
Prosperous Year International Limited	British Virgin Islands	Macau	General services	US$100	–	100%	100%
Quality Time Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	100%	–	100%
Shanghai Tristate Enterprises Co., Ltd. *(Note (iii))*	PRC	PRC	Branded product distribution and retail	RMB28,850,000	–	100%	100%
Sharp Hero International Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Sigsbee Investment Limited	The Republic of Liberia	Hong Kong	Investment holding	US$1	100%	–	100%
Sparkling Ocean Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	100%	–	100%
Tenmo Limited	Hong Kong	Hong Kong	Investment holding	HK$2,000,000	100%	–	100%
Timely Corporate Limited	Hong Kong	Hong Kong	Nominee and secretarial services	HK$1	100%	–	100%
Tristate Industrial Co., Ltd.	Taiwan	Taiwan	Sales liaison services and sample making	NT$98,580,000	–	100%	100%
Tristate Trading Limited	Labuan, Malaysia	Macau	Garment trading	US$1	–	100%	100%
Upgain (Laos) Manufacturing Company Limited	Laos	Laos	Inactive	US$10,950,000	–	99.86%	99.86%
Upgain Limited	British Virgin Islands	Thailand	Investment holding	US$16,000,000	–	99.87%	99.87%
Upgain (Vietnam) Manufacturing Company Limited	Vietnam	Vietnam	Garment manufacturing	US$4,000,000	–	99.87%	99.87%
Velmore Holdings Limited	England	England	Investment holding	GBP558,335.60	–	100%	100%
Velmore Limited	England	England	Manufacture of ladies outerwear	GBP30,000	–	100%	100%
Velmore Sarl	Morocco	Morocco	Quality assurance and warehouse services	Dirhams100,000	–	100%	100%
Zhejiang Huazhang Garment Co., Ltd. *(Note (iii))*	PRC	PRC	Garment manufacturing	US$3,800,000	–	100%	100%

18. SUBSIDIARIES (Continued)

(c) Particulars of principal subsidiaries, all of which are unlisted, as at 31 December 2008 (Continued):

Notes:

(i) The holders of the deferred shares are not entitled to receive any dividends or other distributions and have no right to vote at any general meeting of the company. They are not entitled to participate in any profits or assets of the company unless upon a winding up, in that case, the holders of the deferred shares have the right to receive the amount paid up on such deferred shares to be distributed out of the surplus assets of the company in accordance with its articles of association.

(ii) The holders of the preferred shares are entitled to receive the same dividends as the common shares and have no right to vote at any general meeting of the company. The preferred shares are redeemable subject to the terms and conditions determined by the board of directors of the company and have preference over common shares in the distribution of assets of the company in the event of liquidation.

(iii) A wholly foreign owned enterprise established in the mainland of the PRC.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2008.

19. INTANGIBLE ASSETS

	Group		
	Goodwill *HK$'000*	License rights *(Note (ii))* *HK$'000*	Total *HK$'000*
As at 1 January 2008			
Cost	–	18,269	18,269
Accumulated amortisation	–	–	–
Net book amount	–	18,269	18,269
Year ended 31 December 2008			
Opening net book amount	–	18,269	18,269
Acquisition of a subsidiary *(Note 41(a))*	28,925	–	28,925
Additions	–	126,546	126,546
Amortisation	–	(5,478)	(5,478)
Exchange differences	(8,524)	–	(8,524)
Closing net book amount	20,401	139,337	159,738
As at 31 December 2008			
Cost	20,401	144,815	165,216
Accumulated amortisation	–	(5,478)	(5,478)
Net book amount	20,401	139,337	159,738

19. INTANGIBLE ASSETS (Continued)

	Goodwill *HK$'000*	License rights *HK$'000*	Total *HK$'000*
As at 1 January 2007			
Cost	–	68,785	68,785
Accumulated amortisation	–	(13,454)	(13,454)
Net book amount	–	55,331	55,331
Year ended 31 December 2007			
Opening net book amount	–	55,331	55,331
Addition	–	18,269	18,269
Amortisation	–	(10,162)	(10,162)
Derecognition *(Note (iii))*	–	(45,169)	(45,169)
Closing net book amount	–	18,269	18,269
As at 31 December 2007			
Cost	–	18,269	18,269
Accumulated amortisation	–	–	–
Net book amount	–	18,269	18,269

Notes:

(i) Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU") under the garment manufacturing segment. The recoverable amount of a CGU is determined based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering the financial year 2009. Cashflows from 2009 onwards are projected based on estimated growth rates of 3% for 2010, 5% for 2011 and 0% for the seven years thereafter. The forecast profitability is based on past performance and expectation for market development. Future cashflows are discounted at 15% per annum. The discount rate used is pre-tax and reflects specific risks relating to the CGU. At 31 December 2008, no impairment of goodwill was considered as necessary.

(ii) License rights represent capitalisation of the minimum contractual obligation at the time of inception. They are recognised based on discount rates equal to the Group's weighted average borrowing rates of approximately 3.0% to 5.0% per annum at the dates of inception.

(iii) In 2007, the Group entered into an agreement to terminate a license agreement in return for compensation. In addition, the Group was required to pay royalty based on the actual sales up to the date of the termination and was not obligated to pay the minimum royalty, which would be a higher amount, based on the original agreement. In this connection, franchise agreements between the Group and its franchisees relating to the license were terminated and all the stores operated by the Group and the franchisees were taken over by the new operator. The aggregate financial effect resulting from the termination was a net gain of HK$11,428,000, which was included as other gains.

20. OTHER LONG-TERM ASSETS

	Group		**Company**	
	2008 ***HK$'000***	2007 *HK$'000*	**2008** ***HK$'000***	2007 *HK$'000*
Long-term rental deposits	**9,442**	5,482	**–**	–
Deposits with a financial institution	**8,985**	10,606	**8,985**	10,606
Club debentures	**1,200**	1,200	**–**	–
	19,627	17,288	**8,985**	10,606

20. OTHER LONG-TERM ASSETS (Continued)

Deposits with a financial institution are denominated in Hong Kong dollars with an effective interest rate of 4.8% per annum (2007: 5.1% per annum).

21. INVESTMENTS IN ASSOCIATES

	Group	
	2008	2007
	HK$'000	*HK$'000*
As at 1 January	**–**	–
Acquisition of a subsidiary *(Note 41(a))*	**10,726**	–
Share of losses	**(2,696)**	–
Cancellation of a dividend previously proposed	**1,025**	–
Impairment	**(2,775)**	–
Exchange differences	**(1,289)**	–
As at 31 December	**4,991**	–

Particulars of the associates, which are unlisted, as at 31 December 2008 are as follows:

Name of associates	**Place of incorporation/ establishment**	**Assets** ***HK$'000***	**Liabilities** ***HK$'000***	**Post acquisition revenue** ***HK$'000***	**Post acquisition losses** ***HK$'000***	**% interest held indirectly**
MAC International Sarl	Morocco	8,774	3,562	17,361	(3,838)	50%
Teneco Sarl	Morocco	20,686	3,198	25,524	(3,377)	28.54%

22. INVENTORIES

	Group	
	2008	2007
	HK$'000	*HK$'000*
Raw materials	**170,869**	198,500
Work-in-progress	**100,963**	116,912
Finished goods	**71,640**	52,026
	343,472	367,438

Net write-down of inventories amounted to HK$20,322,000 (2007: HK$17,034,000) was included in cost of sales.

23. ACCOUNTS RECEIVABLE AND BILLS RECEIVABLE

The aging analysis is as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Less than 3 months	**380,352**	355,601
3 months to 6 months	**4,522**	8,618
Over 6 months	**3,954**	2,616
	388,828	366,835
Less: Provision for impairment	**(3,954)**	(2,616)
	384,874	364,219

23. ACCOUNTS RECEIVABLE AND BILLS RECEIVABLE (Continued)

Majority of trade receivables are with customers having an appropriate credit history. The Group grants its customers credit terms ranging from 30 to 45 days. Most of the accounts receivable and bills receivable are covered by letters of credit issued by banks; while the remaining portion is on open account which is substantially covered by credit insurance.

The carrying amounts of the accounts receivable and bills receivable approximate their fair values. The maximum exposure to credit risk is the fair value of the above receivables. The Group does not hold any collateral as security.

As at 31 December 2008, accounts receivable and bills receivable of HK$119,914,000 (2007: HK$102,438,000) were past due but considered not to be impaired. These relate to a number of customers for whom there is no history of default. The aging analysis of these receivables is as follows:

	2008 *HK$'000*	2007 *HK$'000*
Less than 3 months	**115,392**	93,820
3 months to 6 months	**4,522**	8,618
	119,914	102,438

As at 31 December 2008, accounts receivable and bills receivable over six months of HK$3,954,000 (2007: HK$2,616,000) were considered impaired and had been fully provided for.

The risk of accounts receivable and bills receivable that are neither past due nor impaired as at 31 December 2008 becoming impaired is low as most of the balances related to customers with no history of default.

Movements of provision for impairment of accounts receivable and bills receivable are as follows:

	2008 *HK$'000*	2007 *HK$'000*
At 1 January	**2,616**	4,457
Provision for impairment	**1,442**	236
Receivables written off during the year as uncollectible	**(104)**	(2,077)
At 31 December	**3,954**	2,616

The provision for impaired receivables have been included in general and administrative expenses. Amount charged to the allowance account are generally written off when there is no expectation of recovery.

The carrying amounts of accounts receivable and bills receivable are denominated in the following currencies:

	2008 *HK$'000*	2007 *HK$'000*
United States dollars	**316,321**	345,116
Pound Sterling	**43,836**	–
Renminbi	**21,912**	16,203
Hong Kong dollars	**2,321**	2,625
Others	**484**	275
	384,874	364,219

24. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2008	2007
	HK$'000	*HK$'000*
Forward foreign exchange contracts – cash flow hedges *(Note (i))*	**22,048**	–
Forward foreign exchange contracts – net investment hedge *(Note (ii))*	**23,573**	–
	45,621	–

The maximum exposure to credit risk is the fair value (as stated above) of the derivative assets in the consolidated balance sheet. The maturity dates of the outstanding forward foreign exchange contracts are within one year.

Notes:

(i) Forward foreign exchange contracts – cash flow hedges

As at 31 December 2008, the notional principal amount of the outstanding forward foreign exchange contracts under cash flow hedges was HK$263,263,000 (2007: Nil). The hedges related to highly probable forecasted sales and purchases denominated in foreign currencies which are expected to occur at various dates within a 12-month period. Gains and losses of forward foreign exchange contracts recorded in the hedging reserve in equity (Note 36) at 31 December 2008 are to be recognised in the consolidated income statement when the underlying hedged transactions affect the consolidated income statements.

In relation to the forward foreign exchange contracts under cash flow hedges as at 31 December 2008, a gain of HK$6,646,000 (2007: Nil) was recognised within sales of goods and a gain of HK$1,194,000 was included under general and administrative expenses.

(ii) Forward foreign exchange contracts – net investment hedge

As at 31 December 2008, the notional principal amounts of the outstanding forward foreign exchange contracts under net investment hedge was HK$67,186,000 (2007: Nil). Gains and losses of forward foreign exchange contracts recorded in the translation reserve in equity (Note 36) as at 31 December 2008 are to be recognised in the consolidated income statements when the foreign operation is disposed.

In relation to the net investment hedge, a gain of HK$1,113,000 (2007: Nil) in respect of the ineffective portion of the net investment hedge and the change in fair value of the portion of derivative forward instrument not qualified as net investment hedge of HK$2,792,000 (2007: Nil) are included in other gains.

25. PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Tax reserve certificates	**30,834**	20,682	**–**	–
Government incentive receivables	**–**	12,029	**–**	–
Advance payments for purchases of inventories	**11,697**	11,443	**–**	–
Rental deposits	**5,888**	3,819	**37**	32
Value added tax and custom duties recoverable	**6,711**	3,777	**–**	–
Income tax recoverable	**3,498**	4,431	**–**	–
Prepaid operating expenses	**8,512**	8,644	**115**	655
Others	**6,305**	18,312	**1,391**	461
	73,445	83,137	**1,543**	1,148

The carrying amounts of prepayments and other receivables approximate their fair values. The maximum exposure to credit risk is the fair value of the above items. The Group does not hold any collateral as security.

26. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Short-term bank deposits	**157,950**	113,083	**3,505**	1,284
Cash at bank and on hand	**142,399**	276,315	**1,643**	1,536
	300,349	389,398	**5,148**	2,820

The maximum exposure to credit risk approximates the carrying value of the cash and cash equivalents.

The effective interest rate on short-term bank deposits was 1.6% per annum (2007: 3.5% per annum). The effective interest rate on cash at bank was 0.2% per annum (2007: 0.7% per annum). The short-term bank deposits have maturities ranging from one day to three months at inception.

As at 31 December 2008, short-term bank deposits amounted to HK$15,498,000 (2007: Nil) were pledged as collateral for certain foreign currency exchange contract facilities granted to the Group.

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Renminbi	**154,040**	172,342	**–**	–
United States dollars	**104,520**	183,963	**3,573**	1,436
Hong Kong dollars	**11,521**	13,493	**1,569**	1,378
Pound Sterling	**13,667**	–	**–**	–
Others	**16,601**	19,600	**6**	6
Total	**300,349**	389,398	**5,148**	2,820

The Group's cash and cash equivalents denominated in Renminbi were deposited with banks in the Mainland China. The conversion of these Renminbi denominated balances into foreign currencies and the remittance of funds out of the Mainland China is subject to the rules and regulations of foreign exchange control promulgated by the Mainland China Government.

27. NON-CURRENT ASSETS HELD FOR SALE

	Group	
	2008	2007
	HK$'000	*HK$'000*
As at 1 January	**5,874**	–
Transfer from investment properties *(Note 16)*	**–**	5,824
Transfer from leasehold land and land use rights *(Note 17)*	**–**	50
Acquisition of a subsidiary *(Note 41(a))*	**7,887**	–
Disposals	**(5,874)**	–
Exchange differences	**(2,288)**	–
As at 31 December	**5,599**	5,874

27. NON-CURRENT ASSETS HELD FOR SALE (Continued)

In December 2007, the Group entered into an agreement to dispose of an investment property located in Hong Kong for HK$21,000,000 and consequentially the investment property was presented as a non-current asset held for sale as at 31 December 2007. The disposal was completed in April 2008 and a net gain on disposal of HK$15,125,000 was recognised.

In March 2009, the Group completed the disposal of six parcels of leasehold land in Morocco, which had a book carrying value of HK$5,599,000 as at 31 December 2008 for HK$9,281,000. Pursuant to the share purchase agreement, the final consideration for the acquisition of the Velmore Group will be increased by an amount equivalent to the excess of the net sales proceeds (after deducting costs of disposals and the tax attributable to the gain on disposal) over the book carrying value of the land parcels and such amount is payable to the vendors of the Velmore Group (Note 41).

28. ACCOUNTS PAYABLE AND BILLS PAYABLE

	Group	
	2008	2007
	HK$'000	*HK$'000*
Third parties	**180,828**	184,029
Associates	**4,441**	–
	185,269	184,029
The aging analysis is as follows:		
Less than 3 months	**171,284**	176,164
3 months to 6 months	**10,418**	6,665
Over 6 months	**3,567**	1,200
	185,269	184,029

Majority of payment terms with suppliers are within 60 days.

The carrying amounts of accounts payable and bills payable approximate their fair values.

The carrying amounts of accounts payable and bills payable are denominated in the following currencies:

	2008	2007
	HK$'000	*HK$'000*
United States dollars	**123,218**	127,770
Hong Kong dollars	**38,812**	33,324
Renminbi	**7,389**	16,402
Others	**15,850**	6,533
	185,269	184,029

29. ACCRUALS AND OTHER PAYABLES

Accruals and other payables are mainly consisted of the current portion of license fees payable, payable for construction in progress, accrued employment expenses and other operating expenses.

30. BANK BORROWINGS

As at 31 December 2008, the Group's bank borrowings were unsecured, of which approximately HK$184,184,000 (2007: HK$179,193,000) were covered by corporate guarantees given by the Company. The bank borrowings were due for repayment within three months. As at 31 December 2008, bank borrowings of HK$119,320,000 (2007: HK$54,731,000) and HK$91,522,000 (2007: HK$172,361,000) bore interest at fixed rates and floating rates respectively. The interest rates of the bank borrowings ranged from 0.6% to 5.3% per annum (2007: 4.5% to 5.9% per annum).

Bank borrowings are denominated in the following currencies:

	Group	
	2008	2007
	HK$'000	*HK$'000*
United States dollars	**91,522**	179,193
Hong Kong dollars	**80,000**	–
Thai Bahts	**39,320**	47,899
	210,842	227,092

The carrying amounts of the bank borrowings approximate their fair values.

31. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS

	Group		**Company**	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Defined contribution plans *(Note (a))*	**1,422**	1,247	**–**	–
Defined benefit plans *(Note (b))*	**12,158**	13,766	**–**	–
Long service payment liabilities *(Note (c))*	**7,774**	8,516	**–**	–
Other retirement benefits	**12,340**	11,898	**12,340**	11,898
	33,694	35,427	**12,340**	11,898

Notes:

(a) **Defined contribution plans**

During the year ended 31 December 2008, forfeited contributions of HK$275,000 (2007: HK$230,000) were utilised, and HK$814,000 (2007: HK$276,000) outstanding as at 31 December 2008 could be utilised to reduce future contributions.

The Group operates/participates in the following defined contribution plans:

(i) A defined contribution scheme for employees in Hong Kong, under which the Group and its employee each contributes 5% of the employee's salaries. The forfeited contributions made by the Group and the related accrued interest are used to reduce the Group's future employer contribution.

(ii) The Mandatory Provident Fund Scheme for employees in Hong Kong, under which the Group and its employee each makes monthly contribution to the scheme at 5% of the qualifying earnings of the employee, subject to a monthly cap of HK$1,000.

(iii) The Group's subsidiaries in the Mainland China contribute 10% to 20% of the basic salaries of their employees to retirement schemes operated by municipal governments. Under the schemes, the employees also contribute 4% to 8% of their basic salaries.

(iv) The Group's subsidiaries in Thailand operate defined contribution plans, under which the Group generally contributes 5% of participating employees' salaries and the employees contribute 5% of their salaries.

31. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS (Continued)

Notes (Continued):

(a) Defined contribution plans (Continued)

(v) From 1 July 2005, the Group's subsidiaries in Taiwan operate defined contribution plans pursuant to Labour Pension Act as a choice available to their employees. Under the plans, the Group generally contributes 6% of the participating employees' salaries to their personal accounts kept by the Labour Insurance Bureau on a monthly basis. Contributions from employees are on a discretionary basis.

(vi) The Group's subsidiaries in the United Kingdom operate a defined contribution scheme for employees in the United Kingdom, under which the subsidiaries contribute 7.5% of the employees' monthly salaries.

(vii) The Group's subsidiary in Morocco contributes approximately 8.5% of the basic salary of its employees to retirement scheme operated by government.

Other than the mandatory contributions made by the Group under the respective defined contribution plans, the Group has no further obligations for the actual pension payments or any post retirement benefits.

(b) Defined benefit plans

The Group operates/participates in the following defined benefit plans:

(i) A defined benefit retirement plan for two of the Group's subsidiaries in the Philippines. The Group bears the full cost of all plan benefits. The benefits are based on a prescribed percentage of the final monthly basic salary and the period of credited services.

(ii) A defined benefit retirement scheme operated by the Group's subsidiaries in Taiwan. The Group bears the full cost of all benefits and the assets for the benefits are invested through the Bank of Taiwan (formerly known as "Central Trust of China"). The benefits are based on the average monthly salary for the six months immediately preceeding the date of cessation of service with the Group.

The latest actuarial valuations of the above plans were performed by HSBC Life (International) Limited, a professionally qualified independent actuarial firm, as at 31 December 2008 using the "projected unit credit" method. Based on the actuarial reports, the aggregate market value of the plan assets as at 31 December 2008 was HK$30,002,000, representing approximately 122% of the actuarial accrued liabilities at that date.

The amounts recognised in the consolidated balance sheet are as follows:

	2008 ***HK$'000***	2007 *HK$'000*
Present value of funded obligations	**24,556**	29,264
Fair value of plan assets	**(30,002)**	(33,738)
	(5,446)	(4,474)
Unrecognised actuarial gain	**17,604**	18,240
Net liability	**12,158**	13,766

The amounts recognised in the consolidated income statement, which are included as general and administrative expenses, are as follows:

	2008 ***HK$'000***	2007 *HK$'000*
Current service cost	**1,698**	1,304
Interest cost	**978**	1,007
Expected return on plan assets	**(1,667)**	(1,549)
Net actuarial gain recognised	**(1,510)**	(1,712)
Total, included in employment expenses	**(501)**	(950)
Actual return on plan assets	**1,345**	1,274

31. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS (Continued)

Notes (Continued):

(b) Defined benefit plans (Continued)

Changes in the present value of the defined benefit obligations are as follows:

	2008 **HK$'000**	2007 *HK$'000*
As at 1 January	**29,264**	23,094
Current service cost	**1,698**	1,304
Interest cost	**978**	1,007
Actuarial (gain)/loss	**(2,396)**	3,954
Exchange differences	**(1,566)**	1,178
Benefits paid	**(3,422)**	(1,273)
As at 31 December	**24,556**	29,264
Experience adjustments on plan liabilities	**(2,810)**	1,382

Changes in the fair value of plan assets are as follows:

	2008 **HK$'000**	2007 *HK$'000*
As at 1 January	**33,738**	31,209
Expected return on plan assets	**1,667**	1,549
Actuarial loss	**(322)**	(346)
Contributions by employer	**596**	691
Exchange differences	**(2,255)**	1,908
Benefits paid	**(3,422)**	(1,273)
As at 31 December	**30,002**	33,738
Experience adjustments on plan assets	**(322)**	(346)

The principal actuarial assumptions used are as follows:

	2008	2007
Discount rate	**2% to 8%**	3% to 7%
Expected rate of return on plan assets	**3% to 6%**	3% to 10%
Expected rate of future salary increase	**2% to 7%**	2% to 7%

The Group expects to contribute HK$572,000 to its defined benefit plans in the year ending 31 December 2009 (2008: HK$647,000).

The major categories of plan assets as a percentage of total plan assets are as follows:

	2008	2007
Deposits with financial institutions	**48.2%**	26.8%
Bonds	**18.0%**	44.5%
Stocks	**15.0%**	10.5%
Other assets	**18.8%**	18.2%

31. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS (Continued)

Notes (Continued):

(c) Long service payment liabilities

(i) Under the Hong Kong Employment Ordinance, the Group is obliged in certain circumstances to make long service payments on cessation of employment to certain employees in Hong Kong who have completed at least five years of service with the Group. The amount payable is dependent on the employee's final salary (or, at the option of the employee, the average salary for the 12 months prior to cessation of employment, subject to an average monthly salary of HK$22,500) and years of service, and is reduced by entitlements accrued under the Group's defined contribution retirement scheme.

(ii) Under the Labor Protection Act of Thailand (A.D. 1998), the Group is obliged to make severance pay on cessation of employment to the employees who have been regularly employed by the Group for more than 120 days. The amount payable is dependent on the employee's final salary and years of service. The Group does not set aside any asset for the benefit obligation arising from severance pay.

(iii) Under the labour law of Vietnam, the Group is obliged to make severance pay on cessation of employment to the employees who have been employed by the Group for more than 12 months. The amount payable is dependent on the employee's average salary for the six months prior to the termination and years of service. The Group does not set aside any asset for the benefit obligation arising from severance pay.

The latest actuarial valuations of the Group's obligations of long service payment liabilities as at 31 December 2008 were carried out by a professionally qualified independent actuarial firm, HSBC Life (International) Limited, using the "projected unit credit" method.

	2008 ***HK$'000***	2007 *HK$'000*
Present value of unfunded obligations	**12,014**	11,476
Unrecognised actuarial loss	**(4,240)**	(2,960)
Liability in balance sheet	**7,774**	8,516
Current service cost	**1,968**	1,719
Interest cost	**677**	644
Curtailment effect	**–**	(133)
Actuarial loss recognised	**243**	185
Total, included in employment expenses	**2,888**	2,415

Movement in the present value of unfunded obligations:

	2008 ***HK$'000***	2007 *HK$'000*
As at 1 January	**11,476**	10,098
Current service cost	**1,968**	1,719
Interest cost	**677**	644
Benefit paid	**(3,414)**	(2,253)
Actuarial loss	**1,734**	725
Exchange difference	**(427)**	543
As at 31 December	**12,014**	11,476
Experience adjustments on unfunded obligations	**112**	1,006

31. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS (Continued)

Notes (Continued):

(c) Long service payment liabilities (Continued)

The principal actuarial assumptions used are as follows:

	2008	2007
Discount rate	**1% to 10%**	3% to 9%
Expected rate of future salary increase	**1% to 7%**	2% to 7%

32. LICENSE FEES PAYABLE

	Group	
	2008	2007
	HK$'000	*HK$'000*
Within one year	**12,139**	657
In the second year	**18,245**	2,239
In the third to fifth year	**126,175**	19,125
	156,559	22,021
Less: Imputed interest on license fees payable	**(20,173)**	(3,752)
Present value	**136,386**	18,269
Less: Current portion included under accruals and other payables	**(12,139)**	(657)
Non-current portion	**124,247**	17,612
Estimated fair value of:		
Current portion	**12,139**	657
Non-current portion	**130,945**	17,612

License fees payable represents the contractual obligations at the time of recognition. It is recognised based on a discount rates of 3.0% to 5.0% per annum at the date of inception of such obligations, which were determined by reference to the Group's weighted average borrowing rate.

The carrying amounts of license fees payable are denominated in the following currencies:

	2008	2007
	HK$'000	*HK$'000*
United States dollars	**118,819**	–
Euro	**17,567**	18,269
	136,386	18,269

The estimated fair value at the balance sheet date was calculated based on discount rates of 2.0% to 3.5% (2007: 5.0%) per annum, which were determined by reference to the external borrowing rate to the Group.

33. DEFERRED INCOME TAX ASSETS/LIABILITIES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The balances shown in the balance sheets, after appropriate offsetting, are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deferred income tax assets to be recovered:				
– After 12 months	**4,767**	2,513	**286**	282
– Within 12 months	**1,909**	1,280	**–**	–
	6,676	3,793	**286**	282
Deferred income tax liabilities to be realised:				
– After 12 months	**(80,645)**	(93,796)	**–**	–
– Within 12 months	**(2,984)**	(2,697)	**–**	–
	(83,629)	(96,493)	**–**	–
Net deferred income tax (liabilities)/assets	**(76,953)**	(92,700)	**286**	282

The movements in deferred income tax assets and liabilities, without taking into consideration the offsetting of balance with the same tax jurisdiction, are as follows:

Deferred income tax liabilities

	Accelerated tax depreciation		Withholding tax for distribution of overseas retained earnings of subsidiaries		Revaluation of freehold land and buildings		Hedging		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
As at 1 January	**5,363**	5,270	**61,795**	69,353	**43,992**	43,113	**–**	–	**111,150**	117,736
Exchange differences	**–**	–	**–**	2	**(1,538)**	2,933	**–**	–	**(1,538)**	2,935
Acquisition of a subsidiary	**–**	–	**–**	575	**–**	–	**–**	–	**–**	575
Recognised in the income statement	**(1,465)**	93	**(16,092)**	(8,135)	**(2,784)**	(2,697)	**–**	–	**(20,341)**	(10,739)
(Credited)/Charged to equity	**–**	–	**–**	–	**(4)**	643	**469**	–	**465**	643
As at 31 December	**3,898**	5,363	**45,703**	61,795	**39,666**	43,992	**469**	–	**89,736**	111,150

33. DEFERRED INCOME TAX ASSETS/LIABILITIES (Continued)

Deferred income tax assets

	Provisions		Decelerated tax depreciation		Tax losses		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
As at 1 January	**5,989**	7,321	**4,454**	2,884	**8,007**	6,225	**18,450**	16,430
Exchange differences	**(190)**	389	**(10)**	18	**(320)**	442	**(520)**	849
Recognised in the income statement	**1,685**	(1,721)	**855**	1,552	**(7,687)**	1,340	**(5,147)**	1,171
As at 31 December	**7,484**	5,989	**5,299**	4,454	**–**	8,007	**12,783**	18,450

Deferred income tax assets are recognised for tax loss carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2008, the Group did not recognise deferred income tax assets of HK$24,114,000 (2007: HK$32,018,000) for tax losses that can be carried forward against future taxable income. Cumulative tax losses of HK$92,868,000 (2007: HK$102,375,000) can be carried forward indefinitely; cumulative tax losses of HK$12,712,000 (2007: HK$51,492,000) will expire (if not utilised) within the next five years; and cumulative tax losses of HK$17,367,000 will expire (if not utilised) from the sixth to tenth years.

34. OTHER LONG-TERM LIABILITIES

	Group	
	2008	2007
	HK$'000	*HK$'000*
Within one year	**3,470**	–
In the second year	**3,635**	–
In the third to fifth year	**4,010**	–
	11,115	–
Less: Imputed interest on other long-term liabilities	**(1,056)**	–
Present value	**10,059**	–
Less: Current portion included under accruals and other payables	**(3,470)**	–
Non-current portion	**6,589**	–
Estimated fair value of:		
Current portion	**3,470**	–
Non-current portion	**6,926**	–

Other long-term liabilities represent provision for onerous lease payments relating to leased premises located in the United Kingdom. It is recognised based on a discount rate of 5.0% per annum at the date of recognising such obligations, which was determined by reference to the Group's weighted average external borrowing rate.

The estimated fair value at the balance sheet date was calculated based on a discount rate of 3.0% per annum, which was determined by reference to the external borrowing rate to the Group.

The carrying amounts of other long-term liabilities are denominated in Pound Sterling.

35. SHARE CAPITAL

	2008	2007
	HK$'000	*HK$'000*
Authorised:		
500,000,000 (2007: 500,000,000) shares of HK$0.10 each	**50,000**	50,000
Issued and fully paid:		
268,735,253 (2007: 268,735,253) shares of HK$0.10 each	**26,874**	26,874

36. RESERVES

Group

	Share premium	Capital reserve	Statutory reserves	Assets revaluation reserve	Translation reserve	Share option reserve	Hedging reserve	Contributed surplus	General reserve	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2008	8,124	126,598	62,538	69,860	(80,849)	–	–	265,630	117,413	386,799	956,113
Fair value gains on net investment hedge	–	–	–	–	19,668	–	–	–	–	–	19,668
Fair value gains on cash flow hedges	–	–	–	–	–	–	14,208	–	–	–	14,208
Deferred income tax credited/(charged) to equity *(Note 33)*	–	–	–	4	–	–	(469)	–	–	–	(465)
Currency translation differences	–	–	–	–	(20,299)	–	–	–	–	–	(20,299)
Profit for the year	–	–	–	–	–	–	–	–	–	102,517	102,517
Transfer	–	–	2,660	–	–	–	–	–	–	(2,660)	–
Realised upon disposal of a building	–	–	–	(16)	–	–	–	–	–	16	–
Share option scheme – value of employee services	–	–	–	–	–	356	–	–	–	–	356
Dividends paid to equity holders of the Company	–	–	–	–	–	–	–	–	–	(48,372)	(48,372)
As at 31 December 2008	8,124	126,598	65,198	69,848	(81,480)	356	13,739	265,630	117,413	438,300	1,023,726
Representing:											
Proposed dividend										24,186	
Others										414,114	
										438,300	

36. RESERVES (Continued)

Group (Continued)

	Share premium *HK$'000*	Capital reserve *HK$'000*	Statutory reserves *HK$'000*	Assets revaluation reserve *HK$'000*	Translation reserve *HK$'000*	Contributed surplus *HK$'000*	General reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
As at 1 January 2007	8,124	116,927	56,518	70,503	(108,694)	265,630	117,413	323,287	849,708
Deferred income tax charged to equity *(Note 33)*	–	–	–	(643)	–	–	–	–	(643)
Currency translation differences	–	–	–	–	27,845	–	–	–	27,845
Profit for the year	–	–	–	–	–	–	–	130,263	130,263
Transfer	–	9,671	–	–	–	–	–	(9,671)	–
Transfer	–	–	6,020	–	–	–	–	(6,020)	–
Dividends paid to equity holders of the Company	–	–	–	–	–	–	–	(51,060)	(51,060)
As at 31 December 2007	8,124	126,598	62,538	69,860	(80,849)	265,630	117,413	386,799	956,113
Representing:									
Proposed dividend								32,248	
Others								354,551	
								386,799	

Company

	Share premium ***HK$'000***	**Share option reserve** ***HK$'000***	**Contributed surplus** ***HK$'000***	**General reserve** ***HK$'000***	**Retained earnings** ***HK$'000***	**Total** ***HK$'000***
As at 1 January 2008	**8,124**	**–**	**321,020**	**110,000**	**117,596**	**556,740**
Profit for the year	**–**	**–**	**–**	**–**	**94,942**	**94,942**
Share option scheme – value of employee services	**–**	**356**	**–**	**–**	**–**	**356**
Dividends paid to equity holders of the Company	**–**	**–**	**–**	**–**	**(48,372)**	**(48,372)**
As at 31 December 2008	**8,124**	**356**	**321,020**	**110,000**	**164,166**	**603,666**
Representing:						
Proposed dividend					**24,186**	
Others					**139,980**	
					164,166	

36. RESERVES (Continued)

Company (Continued)

	Share premium *HK$'000*	Contributed surplus *HK$'000*	General reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
As at 1 January 2007	8,124	321,020	110,000	84,966	524,110
Profit for the year	–	–	–	83,690	83,690
Dividends paid to equity holders of the Company	–	–	–	(51,060)	(51,060)
As at 31 December 2007	8,124	321,020	110,000	117,596	556,740
Representing:					
Proposed dividend				32,248	
Others				85,348	
				117,596	

(a) Contributed surplus represents the excess in value of shares acquired in consideration for the issue of the Company's shares over the nominal value of those shares issued. Under Companies Act 1981 of Bermuda (as amended), contributed surplus is distributable.

(b) Subsidiaries incorporated in Taiwan are required to set aside 10% of their net profit each year to reserve, according to Company Law in Taiwan. This appropriation is made in the following year until the accumulated reserve equals the paid-in capital. Such reserve can be used to offset a deficit or, when it has reached 50% of the paid-in capital, up to 50% thereof may be transferred to capital. The amount set aside is included under statutory reserve. Subsidiaries in Taiwan did not transfer any amount to the statutory reserve during the year ended 31 December 2008 (2007: Nil).

(c) The laws and regulations in the Mainland China require wholly foreign owned enterprises established in the Mainland China to provide for statutory reserves which are appropriated from net profit, based on profit reported in the statutory accounts. Certain subsidiaries in the Mainland China are required to allocate at least 10% of their after-tax profit to statutory reserves until the reserves have reached 50% of their registered capital. Statutory reserves can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. During the year ended 31 December 2008, subsidiaries in the Mainland China have transferred HK$2,660,000 (2007: HK$6,020,000) to statutory reserves.

(d) Capital reserve mainly relates to the amount transferred from retained earnings in connection with a declaration of stock dividend by a subsidiary during the year ended 31 December 2000.

37. SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "2007 Share Option Scheme"), which will remain in force for ten years up to April 2017. Share options may be granted from time to time as determined by the Board, to directors and employees of the Group. The grantee is required to pay HK$1.00 upon acceptance of the options. The subscription price for the shares of the Company, which are the subject of the options, shall not be less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheet issued by the Hong Kong Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Hong Kong Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company. The subscription price and timing for the exercise of the option will be determined by the Board at the time the option is offered. The options may only be exercised if the grantee remains a director or an employee of the Group. The Group has no legal or constructive obligations to repurchase or settle these options in cash.

Details of the share options granted pursuant to the 2007 Share Option Scheme and the share options outstanding at 31 December 2008 are as follows:

	2008		2007	
	Exercise price per share *HK$*	**Number of options**	Exercise price per share *HK$*	Number of options
As at 1 January	**–**	**–**	–	–
Granted	**1.86**	**1,788,000**	–	–
Exercised	**–**	**–**	–	–
As at 31 December	**1.86**	**1,788,000**	–	–
Exercisable at 31 December	**1.86**	**447,000**	–	–

The share options outstanding at the end of the year have the following vesting date and expiry date:

		Number of options	
Vesting date	**Expiry date**	**2008**	2007
2 July 2008	1 July 2013	**447,000**	–
2 July 2009	1 July 2013	**447,000**	–
2 July 2010	1 July 2013	**447,000**	–
2 July 2011	1 July 2013	**447,000**	–
		1,788,000	–

The fair value of options granted during the year determined using the Trinomial valuation model was HK$0.41 per option. The significant inputs into the model are share price of HK$1.80 at the grant date, exercise price of HK$1.86, dividend yield of 11.1%, volatility of 48.7% and the annual risk-free interest rate of 3.3%. The volatility at the grant date, which measured the standard deviation of expected share price returns, is based on statistics of daily volatility of comparable companies within the industry over the past two years.

The aggregate fair value of the above options granted amounted to HK$724,000 are to be recognised as employee expense over the vesting periods together with a corresponding increase in equity. The amount recognised in the consolidated income statement for the year ended 31 December 2008 amounted to HK$356,000.

38. COMMITMENTS

(a) Operating lease commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings, as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Not later than 1 year	**43,614**	35,543
Later than 1 year and not later than 5 years	**41,534**	37,134
Later than 5 years	**12,753**	15,725
	97,901	88,402

The Group had future aggregate minimum lease rental receipts under non-cancellable operating leases in respect of land and buildings, as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Not later than 1 year	**656**	570
Later than 1 year and not later than 5 years	**61**	84
	717	654

(b) Capital commitments

The Group had capital commitments in relation to construction of production facilities and purchase of equipment, as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Contracted but not provided for	**38,422**	10,404
Authorised but not contracted for	**3,456**	–
	41,878	10,404

39. RELATED PARTY TRANSACTIONS

The Group is controlled by Silver Tree Holdings Inc., which owns approximately 66.40% of the Company's issued shares as at 31 December 2008.

(a) Transactions with related parties

The following is a summary of significant related party transactions which were carried out in the normal course of the Group's business:

		Group	
		2008	2007
	Note	***HK$'000***	*HK$'000*
Associates			
Processing charges	*(i)*	**42,885**	–
A related company			
Rental expense	*(ii)*	**4,457**	4,457

Notes:

(i) Processing charges paid to associates were determined on terms mutually agreed with the associates.

(ii) The entire issued share capital of TDB Company Limited, a related company, is held by a discretionary trust of which two directors of the Company are eligible beneficiaries. Rental expense was for the leasing of factory, storage and ancillary office and was determined by reference to prevailing market rental.

(b) Transactions with subsidiaries

	Company	
	2008	2007
	HK$'000	*HK$'000*
Transactions with subsidiaries		
Service fee charged to subsidiaries	**46,220**	42,698
Service fee charged by a subsidiary	**2,239**	2,596

(c) Key management compensation

	Group	
	2008	2007
	HK$'000	*HK$'000*
Salaries, allowances and bonuses	**17,932**	20,442
Defined contribution plans	**472**	477
Other retirement benefits	**443**	574
Share-based compensation expense – share options granted	**124**	–
	18,971	21,493

40. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before income tax to cash generated from operations:

	2008	2007
	HK$'000	*HK$'000*
Profit before income tax	**109,700**	149,601
Adjustments for:		
Depreciation on property, plant and equipment	**57,331**	51,088
Provision for impairment of property, plant and equipment	**4,025**	–
Depreciation on investment properties	**35**	189
Amortisation of leasehold land and land use rights	**856**	799
Amortisation of license rights	**5,478**	10,162
Net loss/(gain) on disposals of property, plant and equipment and leasehold land	**2,273**	(1,955)
Net gain on disposals of investment properties	**(17,567)**	–
Gain on disposal of an investment	**–**	(43)
Gain from acquisitions of additional interests in subsidiaries	**–**	(203)
Gain arising on termination of a license right	**–**	(11,428)
Provision for impairment in an associate	**2,775**	–
Gain on derivative financial instruments	**(11,745)**	–
Share of losses of associates	**2,696**	–
Net write-down of inventories to net realisable value	**20,322**	17,034
Share-based compensation expense – share options granted	**356**	–
Finance income	**(8,008)**	(11,758)
Finance costs	**12,394**	12,192
Effect of foreign exchange rate changes	**(13,883)**	2,461
	167,038	218,139
Changes in working capital		
Decrease/(Increase) in inventories	**69,303**	(48,329)
Decrease in accounts receivable and bills receivable	**34,223**	27,468
Decrease/(Increase) in prepayments and other receivables	**42,139**	(22,642)
Decrease in accounts payable and bills payable	**(45,869)**	(12,868)
(Decrease)/Increase in accruals and other payables	**(22,978)**	7,266
Decrease in retirement benefits and other post retirement obligations	**(1,733)**	(1,055)
Cash generated from operations	**242,123**	167,979

(b) In the consolidated cash flow statement, proceeds from disposals of property, plant and equipment and leasehold land comprise:

	2008	2007
	HK$'000	*HK$'000*
Net book amount	**4,565**	3,519
Net (loss)/gain on disposals	**(2,273)**	1,955
Proceeds from disposals	**2,292**	5,474

41. BUSINESS COMBINATION

In March 2008, the Group completed the acquisition of the entire issued share capital of Velmore Holdings Limited ("Velmore") for a cash consideration of HK$155,674,000 (equivalent of GBP9,870,000), subject to adjustments as stated in the share purchase agreement. Velmore, including its subsidiaries (the "Velmore Group"), is a full service vendor to a renowned retail chain in the United Kingdom.

(a) Details of net assets acquired and goodwill recognised in the business combination are as follows:

	HK$'000
Purchase consideration:	
Cash consideration	**155,674**
Direct expenses relating to the acquisition	**7,886**
Total purchase consideration	**163,560**
Fair value of net assets acquired (as shown below)	**(134,635)**
Goodwill recognised	**28,925**

The net assets acquired are as follows:

	Fair value ***HK$'000***	**Acquiree's carrying value** ***HK$'000***
Property, plant and equipment	**4,542**	**2,397**
Investments in associates	**10,726**	**10,726**
Inventories	**65,659**	**65,659**
Accounts receivable and bills receivable	**54,878**	**54,878**
Prepayments and other receivables	**25,567**	**22,412**
Income tax recoverable	**3,457**	**3,457**
Non-current assets held for sale – leasehold land	**7,887**	**6,241**
Cash and cash equivalents	**69,433**	**69,433**
Accounts payable and bills payable	**(47,109)**	**(47,109)**
Accruals and other payables	**(59,517)**	**(51,579)**
Income tax liabilities	**(888)**	**(888)**
Net assets acquired	**134,635**	**135,627**

Goodwill is attributable to the service team acquired and synergies expected to arise from the acquisition.

41. BUSINESS COMBINATION (Continued)

(b) Analysis of net outflow of cash and cash equivalents in respect of the acquisition:

	HK$'000
Purchase consideration settled in cash	**155,674**
Direct expenses relating to the acquisition	**7,886**
Cash and cash equivalents acquired	**(69,433)**
Net outflow of cash and cash equivalents	**94,127**

(c) The Velmore Group contributed post-tax losses of HK$20,930,000 to the Group for the period from the acquisition date to 31 December 2008. If the acquisition had occurred on 1 January 2008, consolidated revenue and consolidated after-tax profit of the Group for the year ended 31 December 2008 would have been HK$3,643,956,000 and HK$97,385,000, respectively.

(d) Based on the share purchase agreement, the vendors of the Velmore Group will indemnify the Group for any shortfall in the realisation of receivables and finished goods at less than their estimated realisation value as stated in the Statement of Final Consideration. The total of these items included in the consolidated financial statements as at 31 December 2008 is approximately HK$4,895,000, including HK$1,264,000 accounts receivable and HK$3,631,000 value added tax receivables.

42. ULTIMATE HOLDING COMPANY

The Board regards Silver Tree Holdings Inc., a company incorporated in the British Virgin Islands, as the ultimate holding company.