Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

Annual Report 2007

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*
Leslie TANG SCHILLING
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 QUALIFIED ACCOUNTANT

LI Kwan In

COMPANY SECRETARY

KWOK Shuk Chong

AUDITOR

PricewaterhouseCoopers,
Certified Public Accountants

LEGAL ADVISORS

On Hong Kong Law: Richards Butler
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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F., 66–72 Lei Muk Road
Kwai Chung, New Territories
Hong Kong
Tel: (852) 2279-3888
Fax: (852) 2480-4676
Website: http://www.tristateww.com

CORPORATE COMMUNICATIONS

The Company Secretary
Tristate Holdings Limited
5/F., 66–72 Lei Muk Road
Kwai Chung, New Territories
Hong Kong
Tel: (852) 2279-3888
Fax: (852) 2423-5576
Email: cosec@tristateww.com

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 Fund Services (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

	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
CONSOLIDATED INCOME STATEMENT					
Revenue	**2,913,318**	2,858,475	2,694,225	2,541,682	2,522,128
Profit/(loss) for the year attributable to:					
Equity holders of the Company	**130,263**	115,359	167,779	51,952	(92,410)
Minority interests	**1,991**	4,902	8,052	4,711	1,161
Profit/(loss) for the year	**132,254**	120,261	175,831	56,663	(91,249)
Basic earnings/(loss) per share attributable to equity holders of the Company	**HK$0.48**	HK$0.43	HK$0.62	HK$0.19	(HK$0.34)
CONSOLIDATED BALANCE SHEET					
Non-current assets	**532,719**	520,664	464,153	388,873	366,922
Current assets	**1,212,015**	1,116,859	958,278	681,808	568,824
Current liabilities	**611,728**	558,848	483,960	411,242	339,841
Net current assets	**600,287**	558,011	474,318	270,566	228,983
Total assets less current liabilities	**1,133,006**	1,078,675	938,471	659,439	595,905
Non-current liabilities	**149,532**	186,551	178,362	32,091	28,771
Net assets	**983,474**	892,124	760,109	627,348	567,134
Capital and reserves attributable to equity holders of the Company	**982,987**	876,582	743,745	621,762	566,259
Minority interests	**487**	15,542	16,364	5,586	875
Total equity	**983,474**	892,124	760,109	627,348	567,134

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Tristate Holdings Limited (the "Company" or "Tristate") and its subsidiaries (together, the "Group") recorded a satisfactory overall financial performance in 2007 despite continuous pressure on manufacturing costs. The garment manufacturing and trading segment continues to contribute stable income to the Group. Our branded product distribution and trading segment performed better than last year, benefiting from the economic boom in the Asian market in 2007. As a result, the Group's revenue hit a record high of HK$2,913,318,000 in 2007 and the profit attributable to equity holders of the Company was about 13% higher than 2006.

The management of the Group constantly searches for new business opportunities in the global market to open up new sources of income. In January 2008, the Group entered into an agreement to strategically acquire a group of companies based in the United Kingdom, which is a full service vendor to a renowned retail chain in the United Kingdom, in order to expand the Group's scope of business as well as to balance the geographical spread of customers. I am pleased to report that the acquisition was completed on 14 March 2008.

RESULTS

For the year ended 31 December 2007, the revenue of the Group grew from HK$2,858,475,000 in 2006 to HK$2,913,318,000 in 2007. Profit from operations increased from HK$146,591,000 in 2006 to HK$149,832,000 in 2007. Profit attributable to equity holders of the Company was HK$130,263,000, representing an increase of 13% over the previous year.

The Board recommends payment of a final dividend of HK$0.12 per share in addition to the 2007 interim dividend of HK$0.08 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 range of fashion brands and specialised products with complexity and requiring high levels of quality production. We have extensive capabilities in 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, 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 Mainland China, the Philippines, Thailand and Vietnam. The Group also has nine sales/liaison offices in the United Kingdom, Hong Kong, Macau, Taipei, Kaohsiung, Seoul, Thailand, Singapore and New York. We have the scale required to absorb large orders and to produce reorders, line infusions and quick turn orders.

The Group's new production facilities established in the Hefei Economic & Technological Development Area in Anhui Province, Mainland China have commenced operations in 2007 and they add considerable production capacity to the Group.

Strong Customer Relationships

The Group adopts a strategy of key account management and has developed multi-product and multi-country relationships with our core customers. This strategy has broadened and strengthened relationships with several existing clients and opened up opportunities with new accounts. The Group gained various awards from its valuable customers in recognition of the business relationship and performance of the Group.

With the strong design and sales team of the newly acquired group in the United Kingdom, the Group can extend 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

To minimise the negative impact from the continuing increase in staff costs, we use advanced production technology and production processes to reduce the reliance on manpower in order to maintain the Group's competitiveness. We will continue to formulate innovative and cost effective systems to enhance our factories' productivity and to better manage materials costs and logistics expenses.

Corporate Social Responsibility

Total Corporate Social Responsibility ("CSR") compliance is a prerequisite for being a supplier, and each year the requirements have become more stringent. Our customers continue to emphasise the importance of CSR, as they respond to the demands of the market place relative to promoting workers' rights around the world. We will continue to make social compliance a strategic priority.

All 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 continue to focus on enhancing teamwork across functions and geographies. We will strive to adopt best practices at an even faster pace, so that we can be a leader in our industry in delivering speed, flexibility and service to our customers.

OUTLOOK

The global economic environment has slowed down considerably recently. The problems from sub prime mortgage lending in the United States of America and the fluctuations in the United States dollar exchange rate against other Asian currencies cause the operational environment to be very challenging. Additional efforts are needed to sustain growth in revenue and net profit in such a highly competitive market. As a leading manufacturer of a wide range of apparel products, the Group has its competitive strengths 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. Together with our talented professionals and skilled labour, we believe that the Group can tackle well the forthcoming challenges.

Taking into consideration the existing business environment and our business strategies, we are cautiously optimistic about the future outlook of the Group.

APPRECIATION

To the entire family of Tristate employees – we could not have achieved these results without you. Thank you for your dedication, professionalism, and team spirit. I would like to thank all our customers for their confidence, business and continued support and it is our pleasure to have all of you as our business partners. 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, 7 April 2008

In this Management Discussion and Analysis, we present the business review and explain the financial performance of Tristate Holdings Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2007.

BUSINESS REVIEW

For the year ended 31 December 2007, the total revenue of the Group was HK$2,913,318,000 (2006: HK$2,858,475,000), representing an increase of about 2% as compared with the corresponding period of 2006. Profit attributable to equity holders increased by about 13% to HK$130,263,000 (2006: HK$115,359,000).

Revenue generated from the garment manufacturing and trading segment increased by about 2% as compared with the corresponding period of 2006. This increase was mainly due to increase of orders from the Group's major customers during the year.

Revenue for the branded product distribution and trading segment increased by about 2% when compared with the corresponding period of 2006. Such increase was mainly resulting from a satisfactory revenue growth from the branded product distribution business.

Geographically, the United States of America continued to be the major export market for the Group contributing 74% (2006: 75%) of the total revenue while export sales to Asia and Europe accounted for 16% (2006: 14%) and 10% (2006: 11%) of the Group's total revenue respectively. 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 remained stable at HK$587,417,000 in 2007 (2006: HK$587,317,000) while the gross profit margin stayed at around 20%. Selling and distribution expenses increased by about 17% mainly due to the increase in export freight of the garment manufacturing segment and sales related amortisation of license right of the branded product distribution and trading segment.

On 11 July 2007, in connection with a licensor's proposal for strategic change of its brand business in the Mainland China, the Group entered into an agreement to terminate one of the branded product distribution agreements for compensation from the licensor. The net gain arising on such termination was HK$11,428,000.

During the year, the Group reinvested its earnings from the Mainland China in new and existing subsidiaries in China. Profit reinvestment in the subsidiaries located in the Mainland China resulted in government incentive of HK$5,356,000 recognised for the year.

Strong growth in profitability of the branded product distribution business and stable profit generated from the garment manufacturing business resulted in an increase in the profit attributable to equity holders of the Company from HK$115,359,000 for the year 2006 to HK$130,263,000 for the year 2007.

In early 2006, the Hong Kong Inland Revenue Department (the "HK IRD") initiated a tax audit on certain companies of 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 and 2001/2002. 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 still at a preliminary fact-finding stage, 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 two new production facilities of the Group in the Hefei Economic & Technological Development Area in Anhui Province, the Mainland China with a total factory space of about 17,000 square metres have commenced operation in 2007. The production capacity of each facility is expected to reach about 100,000 pieces per month.

In September 2007, Prime-Time Company Limited ("Prime-Time"), a wholly-owned subsidiary of the Company, made a tender offer to acquire all of the remaining shares in Hua Thai Manufacturing Public Company Limited ("Hua Thai") held by other shareholders at the tender offer price of Baht197 per share. Upon completion of the tender offer, Prime-Time's equity interest in Hua Thai increased to 99.87%. The total tender offer price paid was Baht18,104,000 (equivalent of HK$4,189,000). Immediately after the tender offer, Hua Thai requested to delist its shares from The Stock Exchange of Thailand (the "SET") and the SET's board of governors instructed Hua Thai to delist from the listing status from 15 January 2008 onwards.

The Group continues to dispose of its non-core assets. In December 2007, a wholly-owned subsidiary of the Company entered into a provisional agreement with an independent third party to dispose of an industrial property at a total consideration of HK$21,000,000. It is expected that the transaction will be completed at the end of April 2008.

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 has conditionally agreed to purchase from the Vendors the entire issued share capital of Velmore Holdings Limited ("Velmore") for, subject to adjustments, a total consideration of approximately HK$180 million (equivalent of GBP11,614,000).

Velmore is an investment 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, manufacture subcontracting and quality inspection. Velmore holds equity interests in two garment manufacturers in Morocco. The acquisition was completed on 14 March 2008. Further details of the above transaction 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 or investment in associated companies during the year 2007 and up to the date of this Annual Report and no important events affecting the Group have occurred since the year ended 31 December 2007 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 2007, cash and cash equivalents amounted to HK$389,398,000 (2006: HK$331,257,000) which were mainly denominated in United States dollars and Chinese Renminbi. The short-term bank borrowings of the Group amounted to HK$227,092,000 as at 31 December 2007 (2006: HK$163,626,000). The borrowings were denominated in United States dollars and Thai Bahts. HK$54,731,000 and HK$172,361,000 of the short-term bank borrowings were bearing interest 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 2007. Facilities extended to the subsidiaries were not charged with the Group's assets. As the Group did not have net bank borrowings as at 31 December 2007 and 2006, no information on gearing ratio as at 31 December 2007 and 2006 is provided.

Most of the Group's receipts and payments were denominated in Hong Kong dollars, Chinese Renminbi or United States dollars. The management of the Group monitors the related foreign exchange risk exposure closely and considers hedging significant foreign exchange risk should the need arises.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

Except for the capital commitments described in Note 34 to the consolidated financial statements, there were no material capital commitments or contingent liabilities as at 31 December 2007 which would require a substantial use of the Group's present cash resources or external funding.

HUMAN RESOURCES

The Group has about 20,000 (2006: 19,000) employees as at 31 December 2007. Fair and competitive remuneration packages and benefits are offered to competent employees. Discretionary bonuses are granted to eligible employees with outstanding performance. In addition, a new share option scheme was adopted by the board of directors of the Company on 2 April 2007 and approved by the shareholders at the annual general meeting of the Company held on 6 June 2007 for granting of options to eligible persons to subscribe for shares in the Company.

FUTURE DEVELOPMENT

The management is confident that the Group will benefit from the strategic acquisition of the Velmore Group. Velmore Limited, the principal subsidiary of Velmore, has been a full service vendor to a renowned retail chain in the United Kingdom, which is also a customer of the Group, for over 20 years. The Velmore Group has a strong design and sales team based in the United Kingdom. The acquisition will allow the Group to extend its scope of services offered to include garment design, fabric development and testing, and in particular, to provide 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. Current sales orders on hand of the Group are consistent with that of the last comparable period.

Going forward, the Group will continue focusing on its core customers and product offerings and at the same time explore business opportunities to expand the existing business segments. We will constantly review our systems to improve our production efficiency and control our costs to improve margins. We will also continue to look for branded product distribution rights from licensors to broaden our brands portfolio. The Group will strive to deliver satisfactory returns to our shareholders.

The board of directors (the "Board" or the "Directors") of Tristate Holdings Limited (the "Company") believes in the importance of effective corporate governance, both internally and externally. 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 2007, the Company has complied with 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 deviations from code provisions A.2.1 and B.1.1. By the third quarter of 2007, action has been taken resulting in compliance with code provision B.1.1. Details of the deviations and subsequent compliance of code provision B.1.1 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 2007 and significant events after that date and up to the date of this report.

BOARD OF DIRECTORS

In January 2005, the Company formalised in writing the functions and responsibilities reserved to the Board and those delegated to the management 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 committees, (iii) the appointment and removal of the Chief Executive Officer (the "CEO"), and (iv) monitoring the performance of the CEO to ensure the Company and its subsidiaries (together, the "Group") are in alignment with the Group's 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 of the Group.

During the year 2007 and up to the date of this report, the changes of the Board and Board committee members of the Company are set out below:

(i) Mr. YUAN Ching Man, James resigned as an Independent Non-Executive Director, a member of the Audit Committee (as defined below) and a member of the Remuneration Committee (as defined below) on 3 April 2007;

(ii) Mr. WANG Kin Chung, Peter resigned as a member of the Remuneration Committee on 28 June 2007;

(iii) Mr. James Christopher KRALIK was appointed as a member of the Audit Committee on 28 August 2007; and

(iv) Professor John Zhuang YANG was appointed as an Independent Non-Executive Director and a member of the Remuneration Committee on 28 August 2007.

Subsequent to the above changes and up to the date of this report, the Board comprises one Executive Director, Mr. WANG Kin Chung, Peter, who is also the Chairman and the CEO; four Non-Executive Directors, namely Ms. WANG KOO Yik Chun, Ms. Leslie TANG SCHILLING, 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 the Annual Report.

The Independent Non-Executive Directors are explicitly identified in all corporate communications. Following the resignation of Mr. YUAN Ching Man, James as an Independent Non-Executive Director on 3 April 2007, the number of Independent Non-Executive Directors was below three and the Company was temporarily non-compliant with rule 3.10(1) of the Listing Rules. Subsequent to the appointment of Professor John Zhuang YANG as an Independent Non-Executive Director on 28 August 2007, the Company was in compliance with rule 3.10(1) of the Listing Rules, and at least one-third of the number of the Board members are Independent Non-Executive Directors.

Apart from the period between 3 April 2007 and 27 August 2007, during the year 2007 and up to the date of this report, the Board includes three Independent Non-Executive Directors. Mr. LO Kai Yiu, Anthony, one of the Independent Non-Executive Directors, is qualified as 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 his professional accounting experience of more than eight years, he has over 25 years of experience in investment banking and other financial services.

The Company has received annual confirmations from all the existing Independent Non-Executive Directors that they did not have any business or financial interest with the Group and were independent as at 31 December 2007 in accordance with rule 3.13 of the Listing Rules. The Company considers that all the existing Independent Non-Executive Directors are independent.

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).

During the year 2007, four regular Board meetings have been held. The attendance of each Director at these Board meetings, Board committee meetings and the annual general meeting (the "2007 AGM") is set out below:

	Meetings attended/held			
	Board	**Audit Committee**	**Remuneration Committee**	**2007 AGM**
Executive Director:				
WANG Kin Chung, Peter – *Chairman and CEO* – *member of the Remuneration Committee*	4/4	N/A	2/2	1/1
Non-Executive Directors:				
WANG KOO Yik Chun – *Honorary Chairlady*	4/4	N/A	N/A	1/1
Leslie TANG SCHILLING	4/4	N/A	N/A	0/1
MAK WANG Wing Yee, Winnie – *Chairlady of the Remuneration Committee* – *member of the Audit Committee*	4/4	3/3	2/2	1/1 *(Note)*
WANG Shui Chung, Patrick	4/4	N/A	N/A	0/1
Independent Non-Executive Directors:				
YUAN Ching Man, James – *member of the Audit Committee* – *member of the Remuneration Committee*	1/2	1/2	1/2	N/A
LO Kai Yiu, Anthony – *Chairman of the Audit Committee* – *member of the Remuneration Committee*	4/4	3/3	2/2	0/1 *(Note)*
James Christopher KRALIK – *member of the Audit Committee* – *member of the Remuneration Committee*	3/4	1/1	2/2	0/1
Professor John Zhuang YANG – *member of the Remuneration Committee*	2/2	N/A	N/A	N/A

N/A: Not applicable

Note:

Ms. MAK WANG Wing Yee, Winnie also acted as the delegate of Mr. LO Kai Yiu, Anthony, the Chairman of the Audit Committee.

Board or Board committee meeting schedules for each year are normally made available to all Directors or Board committee members before the beginning of the year. Directors can attend meetings in person or via conference telephone facility pursuant to bye-law 94 of the bye-laws of the Company (the "Bye-Laws"). The company secretary of the Company (the "Company Secretary") assists the Chairman in establishing the meeting agenda and each Director or Board committee member may request the inclusion of items in the agenda for regular meetings. Information packages containing analysis and background materials for regular Board or Board committee meetings are despatched at least three days in advance of the respective meetings to the Directors or Board committee members. Mr. LI Kwan In, the Chief Financial Officer and the Qualified Accountant under the requirements of the Listing Rules, is invited to attend Board and Board committee meetings, and other senior executives are also invited to attend Board and Board committee meetings, as appropriate.

Minutes of Board or Board committee meetings are maintained, and draft minutes are circulated to all Directors or Board committee members for comments before being approved by the Chairman or Board committee Chairman. Minutes of the Board or Board committee meetings are kept by the Company Secretary and are open for inspection by the Directors. Where any Director has a material or conflict of interest in any transaction discussed at the Board or Board committee meetings, this would not be dealt with by way of written resolutions. The Director(s) concerned could express views but would not be counted as part of the quorum and shall abstain from voting on the relevant resolutions.

All Directors have access to the Company Secretary who is responsible for ensuring that the Board or Board committee procedures are complied with and for advising the Board or Board committees on compliance matters. Procedures agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense have been set up.

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

CHAIRMAN AND THE CEO

The Chairman of the Board is responsible for ensuring the Board works effectively and discharges its responsibilities and addresses all key and appropriate issues in a timely manner. He is responsible for encouraging all Directors to make a full and active contribution to the Board's affairs and taking the lead to ensure that the Board acts in the best interests of the Company and its shareholders as a whole.

Other than the decisions reserved to the Board, the Board delegates to the CEO full authority to achieve the corporate goal of the Company in collaboration with other members of the management of the Group. The CEO assumes the responsibility for the day-to-day management of the Group and exercises his judgement in the best interests of the Company and its shareholders as a whole.

During the year 2007 and up to the date of this report, Mr. WANG Kin Chung, Peter is the Chairman and the 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. However, the Board considered that it is beneficial to the Company that the Chairman and the CEO both take part in the Company's strategic planning and development process. The Board also considers that it would be appropriate and in the best interests of the Company and its shareholders as a whole that Mr. WANG Kin Chung, Peter holds both the offices of the Chairman and the CEO given the current size of the Group and its present stage of development.

NON-EXECUTIVE DIRECTORS

Save for the term of appointment of Professor John Zhuang YANG as an Independent Non-Executive Director which has been fixed for a period of three years commencing 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 1 January 2005 and has been renewed for a period of three years commencing 1 January 2008, subject to earlier determination in accordance with the Bye-Laws and/or applicable laws and regulations.

In addition, under the Bye-Laws, all Directors of the Company (save for any executive chairman or 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.

REMUNERATION COMMITTEE AND REMUNERATION OF DIRECTORS

In September 1998, the Company formed an executive personnel and compensation committee (the "EPC Committee"), which is charged with the responsibility for recommending compensation packages of Directors and advising on the succession planning and development of Directors.

In January 2005, the Board resolved to change the name of the EPC Committee to remuneration committee (the "Remuneration Committee") and adopted a new set of terms of reference for the Remuneration Committee in alignment with the Code. The full text of those terms of reference is set out on the Company's website and is also available upon written request to the Company Secretary.

During the year 2007 and up to the date of this report, the members of the Remuneration Committee are:

Executive Director:

Mr. WANG Kin Chung, Peter	(resigned on 28 June 2007)

Non-Executive Director:

Ms. MAK WANG Wing Yee, Winnie

Independent Non-Executive Directors:

Mr. LO Kai Yiu, Anthony	
Mr. James Christopher KRALIK	
Mr. YUAN Ching Man, James	(resigned on 3 April 2007)
Professor John Zhuang YANG	(appointed on 28 August 2007)

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

Following the resignation of Mr. YUAN Ching Man, James as a member of the Remuneration Committee on 3 April 2007, the Company was temporarily non-compliant with code provision B.1.1 of the Code which requires that a majority of the members of the Remuneration Committee should be Independent Non-Executive Directors. Subsequent to the resignation of Mr. WANG Kin Chung, Peter as a member of the Remuneration Committee on 28 June 2007, the Company was in compliance with code provision B.1.1 of the Code. On 28 August 2007, Professor John Zhuang YANG was appointed as a member of the Remuneration Committee.

The attendance of each committee member at the Remuneration Committee meetings held during the year 2007 is set out in the "Board of Directors" section of this report.

The responsibilities of the Remuneration Committee pursuant to the new terms of reference include, amongst other things, to determine the specific remuneration packages of all Executive Directors and senior management (including the review and approval of any compensation in connection with loss or termination of their office or appointment), and make recommendations to the Board of the remuneration of Non-Executive Directors. In the discharge of its duties, the Remuneration Committee is authorised by the Board to obtain outside legal or other independent professional advice.

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 2007 AGM, the shareholders of the Company 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 1 January 2005, which is also applicable for the subsequent term of appointment for the three years commencing 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 *(Note 3)*	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.*

3. *The Share Option Committee was established on 2 April 2007.*

During the year 2007, the Remuneration Committee held two meetings and the work performed are set out below:

(i) reviewed and approved the 2006 remuneration packages of the Directors and senior management of the Group;

(ii) reviewed the human resources development;

(iii) reviewed the cash bonus incentive plan; and

(iv) reviewed and approved for recommendation to the Board the 2007 Share Option Scheme in replacement of the 1997 Share Option Scheme (as respectively set out in the "Report of the Directors" section of the Annual Report).

The terms of reference of the Remuneration Committee were amended in April 2007 by inclusion of a duty to determine the participants who are entitled to share options of the Company and the terms of the share options to be granted and to recommend the same for approval by the Board.

NOMINATION, RETIREMENT AND RE-ELECTION OF DIRECTORS

The Board is responsible for considering the suitability of individuals to act as Directors, 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 of the Company.

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. Pursuant to the Bye-Laws, any Director newly appointed by the Board during the year shall hold office until the next annual general meeting and shall then be eligible for re-election at that annual general meeting.

After identifying that (i) Professor John Zhuang YANG is the suitable candidate to fill the offices of Independent Non-Executive Director and Remuneration Committee member, and (ii) Mr. James Christopher KRALIK is the suitable candidate to fill the office of Audit Committee member due to the resignation of Mr. YUAN Ching Man, James, Mr. WANG Kin Chung, Peter, the Chairman and the CEO, made the recommendation to the Board for the proposed appointments. Having considered their qualifications, experience and suitability, the Board approved the appointments on 28 August 2007.

Under code provision A.4.2 of the Code, all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Under the Bye-Laws, all Directors of the Company (save for any executive chairman or managing director) shall be subject to retirement by rotation at least once every three years, and that a Director may voluntarily retire.

Ms. MAK WANG Wing Yee, Winnie and Mr. James Christopher KRALIK retired and were re-elected at the 2007 AGM. Ms. WANG KOO Yik Chun and Ms. Leslie TANG SCHILLING will retire by rotation and Professor John Zhuang YANG will retire at the 2008 AGM (as defined below) and, being eligible, offer themselves for re-election. In consideration of their qualifications, experience and contributions to the Company, the Board recommended the shareholders of the Company to vote for the re-election of the aforesaid three Directors at the 2008 AGM.

In accordance with Bye-Law 90, a shareholder of the Company may recommend a person for election as a Director by lodging at the office of the Company notice in writing signed by the shareholder (other than the person to be proposed). The period for lodgement of such notice shall commence on (and include) the day after the date of despatch of the notice convening the relevant general meeting appointed to consider such proposal and end on (and exclude) the date that is seven days before the date of such general meeting. Upon receipt of such notice, 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.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). By responding to specific enquiries from the Company, the Directors have confirmed that they complied with the required standard set out in the Model Code and the Company's code of conduct regarding securities transaction by Directors throughout the year 2007.

In addition, in January 2005 the Board formally adopted the Model Code as guidelines for relevant employees in respect of their dealings in the securities of the Company.

AUDIT COMMITTEE

An audit committee of the Company (the "Audit Committee") was formed in September 1998. During the year 2007, three Audit Committee meetings have been held. The attendance of each Audit Committee member at these Audit Committee meetings is set out in the "Board of Directors" section of this report.

During the year 2007 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. YUAN Ching Man, James (resigned on 3 April 2007)
Mr. James Christopher KRALIK (appointed on 28 August 2007)

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.

Following the resignation of Mr. YUAN Ching Man, James as a member of the Audit Committee on 3 April 2007, the Company was temporarily non-compliant with rule 3.21 of the Listing Rules which requires that the Audit Committee must comprise a minimum of three members. Subsequent to the appointment of Mr. James Christopher KRALIK, an existing Independent Non-Executive Director, as a member of the Audit Committee on 28 August 2007, the Company was in compliance with rule 3.21 of the Listing Rules.

In January 2005, the Board adopted a new set of terms of reference for the Audit Committee in alignment with the Code. The main duties of the Audit Committee are set out below:

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

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

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

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

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

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

The terms of reference of the Audit Committee are set out in full on the Company's website and are also available upon written request to the Company Secretary.

During the year 2007, the Audit Committee held three meetings and the work performed are set out below:

(i) reviewed the draft annual report and the audited financial statements of the Group for the year ended 31 December 2006 and recommended the same to the Board for approval;

(ii) received the audit service plan from the external auditor and discussed with them the nature and scope of the audit of the financial statements of the Group for the year ended 31 December 2007 and their reporting obligations, considered and approved their terms of engagement and received their letter of independence;

(iii) made recommendation to the Board on the appointment of the external auditor at the 2007 annual general meeting and considered the proposed external auditor's remuneration;

(iv) reviewed the draft interim report and unaudited interim financial statements of the Group for the six months ended 30 June 2007 and recommended the same to the Board for approval;

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

(vi) reviewed various periodic internal audit reports.

FINANCIAL REPORTING

The Directors acknowledge that they are responsible for the preparation of the consolidated financial statements which give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and for ensuring that appropriate accounting policies are selected and applied consistently.

To the best of the knowledge of the Directors, there is no uncertainty relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

PricewaterhouseCoopers ("PwC"), the external auditor of the Company, stated their reporting responsibilities in the Independent Auditor's Report included in the Annual Report on the financial statements of the Company and of the Group for the year ended 31 December 2007.

INTERNAL CONTROL

The Board acknowledges its responsibility for maintaining an effective system of internal controls to safeguard the investment of the Company's shareholders and the Group's assets at all times. The primary purpose of such system is to provide reasonable, but not absolute, assurance regarding the achievement of the Group's objectives in relation to the reliability of financial reporting and the effectiveness and efficiency of operations.

During the year, 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.

AUDITORS' REMUNERATION

The external auditor of the Company for the year 2007 was PwC. In January 2005, the Audit Committee adopted a written policy which clearly set out the procedure for the appointment of external auditor to supply non-audit services to the Group.

In 2007, remunerations paid to PwC (including any entity that is under common control, ownership or management with PwC or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of PwC nationally or internationally) in respect of audit and non-audit services provided to the Group are set out below:

	2007 ***HK$'000***
Annual audit fees	**3,635**
Tax services fees	**396**
Other services fees	**449**
TOTAL	**4,480**

During the year 2007 and up to the date of this report, the Group has not employed any staff member who was formerly involved in the Group's statutory audit.

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 5/F., 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 2007 AGM was held on 6 June 2007 at Room 5A, 5/F., 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong, at which, inter alia, the audited financial statements and the reports of the directors and auditor of the Company and the final dividend of the Company for the year ended 31 December 2006 were considered and approved. For details of the matters discussed, please refer to the circular of the Company dated 8 May 2007.

The Board resolved that the forthcoming annual general meeting of the Company (the "2008 AGM") will be held at Room 5A, 5/F., 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong on Monday, 2 June 2008 at 10:00 a.m.. The notice of the 2008 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 2008 AGM to answer questions from the shareholders of the Company on the business to be dealt with at the 2008 AGM.

The important dates to shareholders in year 2008 are set out below:

Book close dates for proposed final dividend:	Tuesday, 27 May 2008 to Monday, 2 June 2008, both days inclusive
2008 AGM:	Monday, 2 June 2008
Expected payment date of proposed final dividend:	Thursday, 5 June 2008

On behalf of the Board

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Hong Kong, 7 April 2008

DIRECTORS

Executive Director

Mr. WANG Kin Chung, Peter, *BSc, MBA,* aged 54, 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 20 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, the United States of America ("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. Mr. Wang won the Young Industrialist Awards 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 a Chairman of the Hong Kong Garment Manufacturers Association Ltd., a director 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, a Court Member of The Hong Kong Polytechnic University and a member of the Textile 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, and the Chairman and Managing Director of Hua Thai Manufacturing Public Company Limited, a subsidiary of the Company.

Non-Executive Directors

Ms. WANG KOO Yik Chun, aged 90, 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 of Johnson Electric Holdings Limited, a director of Hua Thai Manufacturing Public Company Limited, a subsidiary of the Company, and a director of certain other 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. Leslie TANG SCHILLING, *BA, MIM,* aged 53, was appointed a Director of the Company in July 1996. Ms. Tang was previously a Director of the Company for the period from February 1989 to November 1993.

Ms. MAK WANG Wing Yee, Winnie, *BSc,* aged 61, 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, Director of the Company.

Dr. WANG Shui Chung, Patrick, *JP, BSc, MSc,* aged 57, 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 currently 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 and a member of the Audit Committee of The Hongkong and Shanghai Banking Corporation Limited and a non-executive director of VTech Holdings Limited. Dr. Wang is also a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority and is a director of a charitable organisation, Heifer International – Hong Kong. He has been appointed as Chairman of Hong Kong Applied Science and Technology Research Institute Company Limited in October 2007. 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, Director of the Company.

Independent Non-Executive Directors

Mr. LO Kai Yiu, Anthony, aged 59, 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 qualified as 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 25 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 November 1998 to May 2006.

Mr. James Christopher KRALIK, aged 42, 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 53, 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. CHEN Nam Zhang, aged 71, joined Hwa Fuh Manufacturing Company (Hong Kong) Limited in 1985 as an executive director. He was appointed as an Executive Director of the Company in 1999 and retired in 2002. Thereafter, he became the General Manager of the South-China factories of the Group. Mr. Chen has over 40 years' experience in China trade business. He was awarded a Certificate for Honourable Citizen from Shangyu City, Zhejiang Province, the People's Republic of China (the "PRC") and is specially invited as deputy to the People's Congress of Shangyu City, Zhejiang Province, the PRC. In March 2006, Mr. Chen received an Honour Certificate for Model Individual in Integrated Community Security Governance for year 2005 from Shenzhen Bao'an Shajing Road Working Committee and Shenzhen Bao'an Shajing Road Office, the PRC. He is the nephew-in-law of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company.

Mr. WU Ching Her, *BS,* aged 60, joined the Group in 1971 and is currently the Executive Vice President – Manufacturing of the Company. He was previously 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 45, joined the Company in 1999 and is the Senior Vice President – Operation. Mr. Poon has almost 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. LI Kwan In, *BComm,* aged 56, joined the Company in December 2004 and is currently the Chief Financial Officer and Qualified Accountant of the Company. He is qualified as a chartered accountant with the Institute of Chartered Accountants of British Columbia in 1985 and became a fellow member of the Hong Kong Institute of Certified Public Accountants in 2000. Mr. Li had worked with international accounting firms for over ten years and was admitted as a partner of Ernst & Young in Canada in 1991. Prior to joining the Company, he had held senior financial positions with garment manufacturing groups in Hong Kong.

Ms. TING Wei Lin, Rita, *EMBA,* aged 49, joined the Company in 1985 and is currently a Vice President – Sales. Ms. Ting has over 23 years' experience in the garment industry.

Ms. NG Fung Lin, Linda, aged 54, joined the Company in 2007 as Managing Director of 338 Apparel Limited, a wholly-owned subsidiary of the Company. She also acts as Vice President – Sales of the Company and participates in the Group's sales and marketing activities during the year. Ms. Ng has over 30 years' experience in garment industry. She had worked with a Far East based buying office where she was a Divisional Vice President and Managing Director. Ms. Ng was previously a Vice President – Sales and Marketing of the Company for the period from 1999 to 2001.

Mr. Joshua Bruce PERLMAN, *BS,* aged 38, 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 15 years of experience in China working with multinational brands on the sales and marketing side of their operations. A native of New York City, USA, he is fluent in 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 2007.

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 trading, and (ii) branded product distribution 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 2007 are set out in the consolidated income statement on page 33.

An interim dividend of HK$0.08 per share amounting to HK$21,499,000 was paid on 17 October 2007 (2006: HK$0.07 per share, totalling HK$18,811,000).

The Board recommends the payment of a final dividend of HK$0.12 per share, totalling HK$32,248,000 for the year ended 31 December 2007 (2006: HK$0.11 per share, totalling HK$29,561,000).

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on 2 June 2008, is expected to be paid on 5 June 2008 to the shareholders of the Company whose names appear on the register of members of the Company on 2 June 2008, and for the purpose of determining the entitlements of the shareholders, the register of members of the Company will be closed from 27 May 2008 to 2 June 2008, 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 2007 is set out on page 3.

PROPERTY, PLANT AND EQUIPMENT

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

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2007 are set out in Note 18 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 31 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 32 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the reserves of the Company amounted to HK$431,020,000 (2006: HK$431,020,000) and retained earnings amounted to HK$117,596,000 (2006: HK$84,966,000), both of which were available for distribution to equity holders of the Company as calculated in accordance with the Companies Act 1981 of Bermuda.

SHARE OPTIONS

A new share option scheme (the "2007 Share Option Scheme") was adopted by the Board on 2 April 2007 and was approved by the shareholders at the annual general meeting of the Company held on 6 June 2007 (the "2007 AGM") for granting of options to subscribe for shares in the Company. The share option scheme adopted by the Company on 28 November 1997 (the "1997 Share Option Scheme", details of which are set out in Note 33 to the consolidated financial statements) which originally would expire on 28 November 2007 was cancelled at the 2007 AGM.

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 Company 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 Company 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.

No share options under the 1997 Share Option Scheme and the 2007 Share Option Scheme were outstanding at the beginning and at the end of the year. No share options were granted, exercised, cancelled or lapsed during the year. Since no share options were granted during the year, no valuation of share options granted was necessary.

Details of the share options of the Company are also set out in Note 33 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of the Group are set out in Note 28 to the consolidated financial statements.

BANK BORROWINGS

Details of the bank borrowings of the Group are set out in Note 27 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$82,000.

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
Ms. MAK WANG Wing Yee, Winnie
Dr. WANG Shui Chung, Patrick

Independent Non-Executive Directors:
Mr. YUAN Ching Man, James (resigned on 3 April 2007)
Mr. LO Kai Yiu, Anthony
Mr. James Christopher KRALIK
Professor John Zhuang YANG (appointed on 28 August 2007)

In accordance with Bye-Laws 85 and 86 of the Company's Bye-Laws and 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"), Ms. WANG KOO Yik Chun and Ms. Leslie TANG SCHILLING will retire by rotation, and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

In accordance with Bye-Law 92 of the Company's Bye-Laws and for compliance with code provision A.4.2 set out in Appendix 14 of the Listing Rules, Professor John Zhuang YANG, the Director appointed during the year, will also retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

The Company confirms that it has received from each of its Independent Non-Executive Directors an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and the Company considers that such Independent Non-Executive Directors are still independent.

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 19 to 21.

DIRECTORS' SERVICE CONTRACTS

None of the Directors offering themselves for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company or any of its subsidiaries, which is not determinable within one year without payment of compensation (other than statutory compensation).

DIRECTORS' EMOLUMENTS

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 prevailing market conditions.

Details of the emoluments of the Directors for the year ended 31 December 2007 are set out in Note 13 to the consolidated financial statements.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the "Share options" section in this report and in Note 33 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' INTERESTS IN CONTRACTS OF SIGNIFICANCE

(i) On 26 January 2005, Hwa Fuh Manufacturing Company (Hong Kong) Limited ("Hwa Fuh"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement with TDB Company Limited ("TDB"), relating to the 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 2005 to 31 March 2007 (the "Previous Tenancy Agreement"). As at the date of the Previous Tenancy Agreement, the entire issued share capital of TDB was held by a discretionary trust of which Mr. WANG Kin Chung, Peter ("Mr. Peter WANG") and Ms. WANG KOO Yik Chun ("Madam Koo"), being Directors, were eligible beneficiaries. The said tenancy expired on 31 March 2007.

(ii) On 10 January 2007, Hwa Fuh entered into a new tenancy agreement with TDB relating to the Premises for a term of two years from 1 April 2007 to 31 March 2009 (the "New Tenancy Agreement"). As at the date of the New Tenancy Agreement, the entire issued share capital of TDB was held by a discretionary trust of which Mr. Peter WANG and Madam Koo, being Directors, were eligible beneficiaries.

Further particulars of the above agreements are set out in the "Continuing connected transactions" section of this report.

Save for the above, no contract of significance in relation to the Company's business subsisted during or at the end of the year in which a Director was materially interested either directly or indirectly; nor was there any contract of significance between the Company or any of its subsidiaries, and a controlling shareholder or any of its subsidiaries during or at the end of the year.

During the year, no contract of significance for the provision of services to the Group by a controlling shareholder or any of its subsidiaries has been made.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year ended 31 December 2007, 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.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2007, 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	Directly beneficially owned	Through spouse or minor children	Through controlled corporation(s)	Through discretionary trust(s)/as beneficiary or trustee of trust(s)	Total	Approximate percentage of issued share capital
Mr. Peter WANG	Long position	–	3,000,000 *(Note 1)*	178,442,000 *(Note 2)*	–	181,442,000	67.51%

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

			Number of shares held			
Name of Director	Long/short position	Class	Directly beneficially owned	Through spouse or minor children	Total	Approximate percentage of issued share capital
Madam Koo	Long position	Ordinary share	–	2,500 *(Note 3)*	2,500	0.03%

Notes:

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

Save as disclosed above, as at 31 December 2007, 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 required to be (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.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 336 of the SFO shows that, as at 31 December 2007, the Company had been notified that the following persons (not being a Director or the chief executive of the Company) were interested in the following interests and/or short positions in the shares or underlying shares of the Company:

		Number of shares held					
Name of shareholder	**Long/short position**	**Directly beneficially owned**	**Through spouse or minor children**	**Through controlled corporation(s)**	**Through discretionary trust(s)/as beneficiary or trustee of trust(s)**	**Total**	**Approximate percentage of issued share capital**
Ms. Daisy TING	Long position	3,000,000	178,442,000 *(Note)*	–	–	181,442,000	67.51%
Silver Tree Holdings Inc.	Long position	178,442,000 *(Note)*	–	–	–	178,442,000	66.40%
Mr. TANG Yue Nien, Martin	Long position	23,860,000	–	–	–	23,860,000	8.88%

Note:

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

Save as disclosed above, as at 31 December 2007, no other person (other than a Director or the chief executive of the Company) known to any Director or the chief executive of the Company had an interest or short position in the shares or underlying shares which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PUBLIC FLOAT

On the basis of information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules.

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.

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).

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 24% and 47%, 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 TRANSACTIONS

On 26 January 2005 and 10 January 2007, Hwa Fuh, a wholly-owned subsidiary of the Company, entered into the Previous Tenancy Agreement and the New Tenancy Agreement respectively with TDB, in relation to the premises at Ground and 2nd to 11th Floors, Tak Dah Industrial Building, 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong. As at the respective dates of the Previous Tenancy Agreement and the New Tenancy Agreement, the entire issued share capital of TDB was held by a discretionary trust of which Mr. Peter WANG and Madam Koo, being Directors, were eligible beneficiaries. TDB was therefore a connected person (for the purposes of the Listing Rules) of the Company and both the Previous Tenancy Agreement and the New Tenancy Agreement constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules (the "Continuing Connected Transactions").

Details of the Previous Tenancy Agreement were as follows:

Term	:	Two years from 1 April 2005 to 31 March 2007
Monthly rental	:	HK$371,435 (excluding management fee, government rates and government rent)
Use of the premises	:	As factory, office and warehouse premises by the Company and certain of its subsidiaries

Details of the New Tenancy Agreement were as follows:

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

The terms of the Previous Tenancy Agreement were arrived at after arm's length negotiations between Hwa Fuh and TDB and on the basis of the valuation made by DTZ Debenham Tie Leung Limited, a firm of professional property valuers, in its letter dated 26 January 2005 that the terms (including the rental) of the Previous Tenancy Agreement were fair and reasonable by reference to the then prevailing market rentals for comparable properties in the same district of similar ages, sizes, uses and attributes.

The terms of the New Tenancy Agreement were arrived at after arm's length negotiations between Hwa Fuh and TDB and on the basis of the valuation made by Vigers Appraisal & Consulting Limited, a firm of professional property valuers, dated 10 January 2007 which stated that the terms (including the rental) of the New Tenancy Agreement were fair and reasonable by reference to the prevailing market rentals for comparable properties in the same district of similar ages, sizes, uses and attributes.

The Board (including the Independent Non-Executive Directors) considered that the terms of both the Previous Tenancy Agreement and the New Tenancy Agreement were normal commercial terms and were fair and reasonable and in the interests of the Company and its shareholders as a whole.

The annual rental paid by Hwa Fuh under the Previous Tenancy Agreement for each of the three financial years ended 31 December 2007 is as follows:

Term	Amount of Rental *HK$*
1 April 2005 to 31 December 2005	3,342,915
1 January 2006 to 31 December 2006	4,457,220
1 January 2007 to 31 March 2007	1,114,305

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

Term	Amount of Rental *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

As the applicable percentage ratios for the rental payable by Hwa Fuh to TDB under the Previous Tenancy Agreement and the New Tenancy Agreement on an annual basis represented less than 2.5% as at the dates of the respective agreements, the Company was only subject to the reporting and announcement requirements and no approval from the independent shareholders of the Company was required for the entering into of the said agreements under the Listing Rules.

Further details of the Previous Tenancy Agreement and the New Tenancy Agreement were set out in the announcements of the Company dated 28 January 2005 and 10 January 2007 respectively.

The Independent Non-Executive Directors have reviewed the transactions under the Previous Tenancy Agreement and the New Tenancy Agreement and confirmed that the transactions have been carried out on normal commercial terms, in the ordinary and usual course of business of the Group, and in accordance with the relevant agreements governing such transactions 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 Transactions between Hwa Fuh and TDB, 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 Transactions have been approved by the respective Board of Directors of the Company and Hwa Fuh;

(ii) the Continuing Connected Transactions have been entered into on terms in accordance with the said agreements between Hwa Fuh and TDB dated 26 January 2005 and 10 January 2007; and

(iii) the annual rent arising from the Continuing Connected Transactions did not exceed the annual monetary cap as disclosed in the Company's announcements.

SUBSEQUENT EVENTS

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 has conditionally agreed to purchase from the Vendors the entire issued share capital of Velmore Holdings Limited ("Velmore") for, subject to adjustments, a total consideration of approximately HK$180 million (equivalent of GBP11,614,000).

Velmore is an investment 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 include garment design, fabric development and testing, sample making, raw material procurement, manufacture subcontracting and quality inspection. Velmore holds equity interests in two garment manufacturers in Morocco. The acquisition was completed on 14 March 2008. Further details of the above transaction were set out in the announcement and the circular of the Company dated 29 January 2008 and 31 March 2008 respectively.

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, 7 April 2008

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

羅兵咸永道會計師事務所
香港中環太子大廈廿二樓

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 33 to 84, which comprise the consolidated and Company balance sheets as at 31 December 2007, 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 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 7 April 2008

	Note	2007 HK$'000	2006 HK$'000
Revenue	5	**2,913,318**	2,858,475
Cost of sales		**(2,325,901)**	(2,271,158)
Gross profit		**587,417**	587,317
Other income	5	**23,306**	2,723
Selling and distribution expenses		**(127,680)**	(109,298)
General and administrative expenses		**(333,211)**	(334,151)
Profit from operations	6	**149,832**	146,591
Gain from acquisitions of additional interests in subsidiaries		**203**	590
Finance income	7	**11,758**	10,494
Finance costs	7	**(12,192)**	(11,610)
Profit before income tax		**149,601**	146,065
Income tax expense	8	**(17,347)**	(25,804)
Profit for the year		**132,254**	120,261
Attributable to:			
Equity holders of the Company	9	**130,263**	115,359
Minority interests		**1,991**	4,902
		132,254	120,261
Dividends	10	**53,747**	48,372
Earnings per share attributable to equity holders of the Company:			
Basic and diluted	11	**HK$0.48**	HK$0.43

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**468,334**	410,545
Investment properties	16	**1,649**	7,662
Leasehold land and land use rights	17	**28,868**	29,292
Intangible assets – license rights	19	**18,269**	55,331
Other long-term assets	20	**11,806**	11,297
Deferred income tax assets	30	**3,793**	6,537
		532,719	520,664
CURRENT ASSETS			
Inventories	21	**367,438**	336,143
Accounts receivable and bills receivable	22	**360,686**	391,687
Prepayments and other receivables	23	**63,506**	41,374
Income tax recoverable/prepayment		**25,113**	16,398
Cash and cash equivalents		**389,398**	331,257
		1,206,141	1,116,859
Non-current assets held for sale	24	**5,874**	–
		1,212,015	1,116,859
CURRENT LIABILITIES			
Accounts payable and bills payable	25	**184,029**	196,897
Accruals and other payables	26	**160,269**	170,601
Income tax liabilities		**40,338**	27,724
Bank borrowings	27	**227,092**	163,626
		611,728	558,848
NET CURRENT ASSETS		**600,287**	558,011
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,133,006**	1,078,675
NON-CURRENT LIABILITIES			
Retirement benefits and other post retirement obligations	28	**35,427**	36,482
License fees payable	29	**17,612**	42,226
Deferred income tax liabilities	30	**96,493**	107,843
		149,532	186,551
NET ASSETS		**983,474**	892,124
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	31	**26,874**	26,874
Reserves	32	**956,113**	849,708
		982,987	876,582
Minority interests		**487**	15,542
TOTAL EQUITY		**983,474**	892,124

Approved by the Board of Directors on 7 April 2008 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.

	Note	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**1,095**	1,626
Investments in subsidiaries	18(a)	**475,723**	482,429
Other long-term assets	20	**10,606**	10,096
Deferred income tax assets	30	**282**	247
		487,706	494,398
CURRENT ASSETS			
Amounts due from subsidiaries	18(b)	**127,296**	99,776
Prepayments and other receivables		**1,148**	2,368
Cash and cash equivalents		**2,820**	8,062
		131,264	110,206
CURRENT LIABILITIES			
Accruals and other payables		**15,280**	18,770
Amounts due to subsidiaries	18(b)	**8,178**	22,288
		23,458	41,058
NET CURRENT ASSETS		**107,806**	69,148
TOTAL ASSETS LESS CURRENT LIABILITIES		**595,512**	563,546
NON-CURRENT LIABILITIES			
Retirement benefits and other post retirement obligations	28	**11,898**	12,562
NET ASSETS		**583,614**	550,984
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	31	**26,874**	26,874
Reserves	32	**556,740**	524,110
TOTAL EQUITY		**583,614**	550,984

Approved by the Board of Directors on 7 April 2008 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 2007

	Attributable to equity holders of the Company				
	Share capital *HK$'000*	**Reserves** *HK$'000*	**Total** *HK$'000*	**Minority interests** *HK$'000*	**Total equity** *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**

	Attributable to equity holders of the Company				
	Share capital *HK$'000*	Reserves *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
As at 1 January 2006	26,874	716,871	743,745	16,364	760,109
Revaluation surplus on freehold land and buildings	–	55,002	55,002	–	55,002
Deferred income tax impact on revaluation	–	(10,442)	(10,442)	–	(10,442)
Currency translation differences	–	32,039	32,039	–	32,039
Net income recognised directly in equity	–	76,599	76,599	–	76,599
Profit for the year	–	115,359	115,359	4,902	120,261
Total recognised income and expenses for the year	–	191,958	191,958	4,902	196,860
	26,874	908,829	935,703	21,266	956,969
Dividends paid to equity holders of the Company	–	(59,121)	(59,121)	–	(59,121)
Dividend paid to a minority shareholder of a subsidiary	–	–	–	(4,400)	(4,400)
Decrease in minority interests on acquisitions of additional interest in a subsidiary	–	–	–	(1,324)	(1,324)
As at 31 December 2006	26,874	849,708	876,582	15,542	892,124

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

	Note	2007 HK$'000	2006 HK$'000
Operating activities			
Cash generated from operations	36(a)	**168,489**	77,534
Income tax paid		**(28,522)**	(41,436)
Income tax refund		**3,164**	116
Net cash generated from operating activities		**143,131**	36,214
Investing activities			
Purchase of property, plant and equipment		**(90,898)**	(33,203)
Purchase of leasehold land and land use rights		**(422)**	(9,954)
Proceeds from disposals of property, plant and equipment and leasehold land	36(b)	**5,474**	2,802
Interest received		**11,758**	10,494
Proceeds from disposal of an investment		**44**	777
Proceeds from termination of a license right		**7,820**	–
Acquisitions of additional interests in subsidiaries		**(9,388)**	(650)
Increase in other long-term assets		**(510)**	(463)
Net cash used in investing activities		**(76,122)**	(30,197)
Financing activities			
Interest paid		**(10,203)**	(8,494)
Dividends paid to equity holders of the Company		**(51,060)**	(59,121)
Dividends paid to a minority shareholder of a subsidiary		**(8,260)**	(4,400)
Repayment of license fees payable		**(10,160)**	(8,473)
New bank borrowings		**884,190**	902,022
Repayment of bank borrowings		**(820,724)**	(817,688)
Net cash (used in)/generated from financing activities		**(16,217)**	3,846
Increase in cash and cash equivalents		**50,792**	9,863
Cash and cash equivalents at beginning of the year		**331,257**	317,892
Effect on foreign exchange rate changes		**7,349**	3,502
Cash and cash equivalents at end of the year		**389,398**	331,257

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 5/F., 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 trading, and (ii) branded product distribution 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 on 7 April 2008.

2. PRINCIPAL ACCOUNTING POLICIES

These consolidated financial statements comprise the consolidated and Company balance sheets as at 31 December 2007, 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 the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The 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. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of the freehold land and buildings, which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management of the Group 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. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best estimate of events and actions, actual results ultimately may differ from those estimates.

(i) Standards, amendments and interpretations effective in 2007

In 2007, the Group adopted the HKFRS, Hong Kong Accounting Standards ("HKAS") and HK(IFRIC*) – Interpretations below, which are effective for accounting periods beginning on or after 1 January 2007 and relevant to its operations. The impacts on the Group's accounting policies are set out below.

* IFRIC: International Financial Reporting Interpretations Committee

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(i) Standards, amendments and interpretations effective in 2007 (Continued)

HKFRS 7, 'Financial Instruments: Disclosures', and the complementary amendment to HKAS 1, 'Presentation of Financial Statements – Capital Disclosures', introduce quantitative and qualitative disclosures relating to financial risks and credit quality of financial instruments and discussion of capital management strategy.

HK(IFRIC) – Interpretation 10, 'Interim Financial Reporting and Impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

(ii) Interpretations that are effective for 2007 but are not relevant to the Group's operations

- HK(IFRIC) – Interpretation 7, 'Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies'.
- HK(IFRIC) – Interpretation 8, 'Scope of HKFRS 2'.
- HK(IFRIC) – Interpretation 9, 'Reassessment of Embedded Derivatives'.

(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 2008 or later periods, but the Group has not early adopted them.

- HKAS 1 (Revised), 'Presentation of Financial Statements' (effective from 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRS. The Group will apply HKAS 1 (Revised) from 1 January 2009.
- HKAS 23 (Revised), 'Borrowing Costs' (effective 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) from 1 January 2009. The amendment has no material impact on the Group's accounting polices as the Group's existing accounting policy on borrowing costs complies with the amended requirements.

2. PRINCIPAL 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 27 (Revised), 'Consolidated and Separate Financial Statements' (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 January 2010.

- HKFRS 3 (Revised), 'Business Combinations' (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 January 2010.

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

- HK(IFRIC) – Interpretation 13, 'Customer Loyalty Programmes' (effective from 1 July 2008). HK(IRFIC) – Interpretation 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free awards), 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 July 2008 but it is not expected to have any material impact on the Group's financial statements.

2. PRINCIPAL 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 14, 'HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' (effective from 1 January 2008). HK(IFRIC) – Interpretation 14 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 the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK(IFRIC) – Interpretation 14 from 1 January 2008, but it is not expected to have any material impact on the Group's financial statements.

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

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 March 2007 or later periods but are not relevant to the Group's operations.

- HK(IFRIC) – Interpretation 11, 'HKFRS 2 – Group and Treasury Share Transactions' (effective from 1 March 2007).
- HK(IFRIC) – Interpretation 12, 'Service Concession Arrangements' (effective from 1 January 2008).

(b) Group accounting

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

(ii) 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.

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.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Group accounting (Continued)

(ii) *Subsidiaries* (Continued)
Accounting policies of subsidiaries have been changed where necessary 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 accumulated impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(iii) *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 or excess of fair value of the Group's share of net assets acquired over cost, being the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired.

(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 Hong Kong dollars, which is the Company's functional and presentation currency.

(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 income statement.

(iii) *Group companies*
The results and financial position of all the group 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 income statement as part of the gain or loss on sale.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) 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 subsidiaries at the date of acquisition.

Excess of the fair value of the Group's share of net identifiable assets of the acquired subsidiaries at the date of acquisition over the cost of an acquisition is recognised immediately in the consolidated income statement at the date of acquisition.

(e) Property, plant and equipment

Freehold land and buildings are shown at fair value less subsequent depreciation for buildings. Revaluations are performed by professionally qualified valuers with sufficient regularity, generally 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 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.

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 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.

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) 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.

(g) 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 income statement.

(h) Intangible assets – 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 right 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/losses 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.

(i) 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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) 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 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 income statement.

(k) 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.

(l) 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.

Provisions are measured at the present value of the expenditure 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.

(m) 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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Employee benefits (Continued)

(ii) Retirement benefits (Continued)

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.

(n) Current and deferred income tax

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 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 and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by 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, 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.

(o) 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 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 twelve months after the balance sheet date.

(p) 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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) 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 collectibility 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.

(r) Operating leases (as the lessee)

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 income statement on a straight-line basis over the period of the lease.

(s) Impairment of investment in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet available for use 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.

(t) Dividend distribution

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

(u) 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. PRINCIPAL ACCOUNTING POLICIES (Continued)

(u) 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 corporate cash. Segment liabilities comprise operating liabilities and exclude items such as income tax and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and leasehold land and land use rights, 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.

(v) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with bank, 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.

(w) 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.

(x) 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 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.

(y) Non-current assets held for sale

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(z) 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.

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, bank borrowings, accounts payable, bills payable, accruals and other payables and license fees payable.

The management of the Group regularly monitors the financial risks of the Group. Because of the simplicity of the Group's financial structure and current operations, no major hedging activities are undertaken by the management of the Group.

(a) Market risk

(i) Foreign exchange risk

The Group operates in various economies in Asia. Currency risks arise on monetary assets and liabilities being denominated in a currency that is not the functional currency. Entities within the Group have monetary assets and liabilities denominated in Hong Kong dollars and United States dollars, which are not the functional currencies of the respective subsidiaries whose functional currencies are Chinese Renminbi, Philippine Pesos and Thai Bahts. The management of the Group monitors the related foreign exchange risk exposure closely and will consider hedging significant foreign exchange risk exposure should the need arises.

In relation to currency risks mentioned above, as at 31 December 2007, if Chinese Renminbi, Philippine Pesos and Thai Bahts had strengthened/weakened against the Hong Kong dollars and United States dollars by 10% with all other variables held constant, the effect on post-tax profit for the year would not be significant.

(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 arises.

As at 31 December 2007 and 2006, majority of the Group's borrowings were at floating rates. As at 31 December 2007, if interest rate on borrowings had increased/decreased by 2% and all other variables were held constant, the effect on post-tax profit for the year would not be significant.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(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.

Other than license fees payable, the maturity of the Group's financial liabilities is not later than one year. The contractual undiscounted cash flows of license fees payable are disclosed in Note 29.

(c) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, derivative financial instruments and outstanding receivables from customers. 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 2007 and 2006, all bank balances and bank deposits were held at reputable financial institutions with sound credit ratings.

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 2007 and 2006, 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 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 and intangible assets

The Group assesses annually whether property, plant and equipment, leasehold land and land use rights, investment properties and intangible assets 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) Current 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 current and deferred income tax provisions in the period in which such determinations are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. 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 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT (Continued)

(f) 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 28(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

	2007 **HK$'000**	2006 HK$'000
Revenue		
Sales of goods	**2,894,776**	2,843,724
Commission income	**18,542**	14,751
	2,913,318	2,858,475
Other income		
Rental income from investment properties	**1,807**	1,900
Gain on disposal of an investment	**43**	576
Gain arising on termination of a license right (Note 19)	**11,428**	–
Government incentive on reinvestment of profit	**5,356**	–
Quota income	**4,523**	–
Sundry income	**149**	247
	23,306	2,723
	2,936,624	2,861,198

5. REVENUE/INCOME AND SEGMENT INFORMATION (Continued)

(b) Primary reporting format – Business segments

The Group conducts the majority of its business activities in two segments: (i) garment manufacturing and trading, and (ii) branded product distribution and trading. The segment results are as follows:

	Garment manufacturing and trading		Branded product distribution and trading		Total	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**2,592,858**	2,544,719	**320,460**	313,756	**2,913,318**	2,858,475
Segment results	**112,734**	119,708	**35,627**	25,351	**148,361**	145,059
Gain from acquisitions of additional interests in subsidiaries	**195**	590	**8**	–	**203**	590
Net rental income from investment properties					**1,471**	1,532
Finance income					**11,758**	10,494
Finance costs					**(12,192)**	(11,610)
Profit before income tax					**149,601**	146,065
Income tax expense					**(17,347)**	(25,804)
Profit for the year					**132,254**	120,261

	Garment manufacturing and trading		Branded product distribution and trading		Unallocated *(Note)*		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**1,258,518**	1,140,157	**92,885**	163,056	**393,331**	334,310	**1,744,734**	1,637,523
Segment liabilities	**344,563**	332,709	**52,775**	113,497	**363,922**	299,193	**761,260**	745,399
Net assets							**983,474**	892,124
Capital expenditure	**82,237**	40,924	**27,352**	2,233	**–**	–	**109,589**	43,157
Depreciation	**46,861**	51,947	**2,764**	2,478	**1,652**	1,555	**51,277**	55,980
Amortisation of leasehold land and land use rights	**687**	484	**–**	–	**112**	173	**799**	657
Impairment of investment properties	**–**	–	**–**	–	**–**	978	**–**	978
Amortisation of license rights	**–**	–	**10,162**	6,974	**–**	–	**10,162**	6,974
Provision/(reversal of provision) for impairment of receivables	**60**	(1,462)	**176**	717	**–**	–	**236**	(745)
Write-down of inventories to net realisable value	**15,741**	14,147	**1,293**	743	**–**	–	**17,034**	14,890

Note: Unallocated assets mainly include land and buildings not in use, investment properties and corporate cash. Unallocated liabilities mainly include income tax liabilities and corporate borrowings.

5. REVENUE/INCOME AND SEGMENT INFORMATION (Continued)

(c) Secondary reporting format – Geographical segments

The Group's revenue is mainly 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 People's Republic of China (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		Asia		Europe		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
External revenue	**2,153,611**	2,151,499	**468,338**	383,721	**291,369**	323,255	**2,913,318**	2,858,475

	PRC		Thailand		Other locations		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**959,309**	922,591	**213,496**	213,234	**178,598**	167,388	**1,351,403**	1,303,213
Unallocated corporate assets	**355,646**	298,075	**23,379**	11,658	**14,306**	24,577	**393,331**	334,310
							1,744,734	1,637,523
Capital expenditure	**101,627**	24,251	**754**	8,911	**7,208**	9,995	**109,589**	43,157

6. PROFIT FROM OPERATIONS

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

	2007 **HK$'000**	2006 HK$'000
Crediting		
Net gain on disposals of property, plant and equipment	**1,955**	371
Net rental income from investment properties	**1,471**	1,532
Reversal of provision for impairment of receivables	**–**	745
Net exchange gain	**4,146**	–
Charging		
Depreciation on property, plant and equipment	**51,088**	55,766
Revaluation deficit on buildings	**–**	812
Depreciation on investment properties	**189**	214
Impairment of investment properties	**–**	978
Amortisation of leasehold land and land use rights	**799**	657
Amortisation of license rights	**10,162**	6,974
Provision for impairment of receivables	**236**	–
Write-down of inventories to net realisable value	**17,034**	14,890
Employment expenses (Note 12)	**609,456**	566,862
Operating lease rental in respect of land and buildings	**37,009**	37,390
Auditors' remuneration	**3,767**	3,755
Net exchange loss	**–**	1,033

7. FINANCE INCOME/FINANCE COSTS

	2007 **HK$'000**	2006 HK$'000
Finance income		
Interest income on bank deposits	**11,758**	10,494
Finance costs		
Interest on bank loans and overdrafts	**10,203**	8,494
Imputed interest on license fees payable	**1,989**	3,116
	12,192	11,610

8. INCOME TAX EXPENSE

	2007 **HK$'000**	2006 *HK$'000*
Current income tax		
Hong Kong profits tax	**22,824**	13,032
Non-Hong Kong tax	**6,433**	7,363
Deferred income tax	**(11,910)**	5,409
	17,347	25,804

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit. Income tax on non-Hong Kong profit has been calculated on the relevant estimated assessable profit at the income tax rates prevailing in the countries/places in which the Group operates.

In accordance with the relevant tax rules and regulations in the PRC, certain PRC subsidiaries enjoy income tax exemptions and reductions. Certain PRC subsidiaries are subject to income taxes at the tax rates ranging from 10% to 33%. With the new PRC Enterprise Income Tax Law becoming effective on 1 January 2008, the income tax rates of these PRC subsidiaries will eventually adjust to 25% in 2012.

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

	2007 **HK$'000**	2006 *HK$'000*
Profit before income tax	**149,601**	146,065
Tax calculated at domestic tax rates applicable	**23,557**	25,737
Income not subject to tax	**(7,291)**	(6,667)
Expenses not deductible for tax	**5,875**	6,772
Utilisation of previously unrecognised tax losses	**(741)**	(4,655)
Unrecognised current year tax losses	**2,352**	6,478
Net over-provision in prior years	**(4,512)**	(1,861)
Increase in net deferred tax assets resulting from increase in tax rate	**(1,893)**	–
Income tax expense	**17,347**	25,804

The weighted average applicable tax rate was 16% for the year ended 31 December 2007 (2006: 18%). The decrease was caused by a change in the profitability mix of the Group's subsidiaries operating in different countries.

In early 2006, the Hong Kong Inland Revenue Department (the "HK IRD") initiated a tax audit on certain companies of 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 and 2001/2002. 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 still at a preliminary fact-finding stage, 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$83,690,000 (2006: HK$72,710,000).

10. DIVIDENDS

	2007	2006
	HK$'000	*HK$'000*
Interim dividend paid – HK$0.08 (2006: HK$0.07) per share	**21,499**	18,811
Final dividend proposed – HK$0.12 (2006: HK$0.11) per share	**32,248**	29,561
	53,747	48,372

A final dividend for the year ended 31 December 2007 of HK$0.12 per share, totalling HK$32,248,000 (2006: HK$0.11 per share, totalling HK$29,561,000), is recommended by the Board of Directors 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 2007 but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

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 2007 of HK$130,263,000 (2006: HK$115,359,000) by the weighted average number of shares in issue during the year of 268,735,253 (2006: 268,735,253).

As there was no potential dilutive share, diluted earnings per share equal to the basic earnings per share.

12. EMPLOYMENT EXPENSES

	2007	2006
	HK$'000	*HK$'000*
Directors' emoluments (Note 13)	**8,852**	8,559
Wages, salaries, allowances and bonuses	**546,927**	508,516
Welfare and other benefits	**34,328**	34,962
Defined contribution plans	**17,310**	14,099
Defined benefit plans (Note 28(b))	**(950)**	(284)
Long service payment liabilities (Note 28(c))	**2,415**	643
Other retirement benefits	**574**	367
	609,456	566,862

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	2007 Total HK$'000	2006 Total HK$'000
Executive Director						
Mr. WANG Kin Chung, Peter	32	4,498	2,605	134	7,269	7,002
Non-Executive Directors						
Ms. WANG KOO Yik Chun	89	717	300	–	1,106	1,107
Ms. Leslie TANG SCHILLING	60	–	–	–	60	60
Ms. MAK WANG Wing Yee, Winnie	100	–	–	–	100	85
Dr. WANG Shui Chung, Patrick	60	–	–	–	60	60
Independent Non-Executive Directors						
Mr. YUAN Ching Man, James (Resigned with effect from 3 April 2007)	30	–	–	–	30	85
Mr. LO Kai Yiu, Anthony	130	–	–	–	130	95
Mr. James Christopher KRALIK	70	–	–	–	70	65
Professor John Zhuang YANG (Appointed on 28 August 2007)	27	–	–	–	27	–
	598	5,215	2,905	134	8,852	8,559

No director waived his/her emoluments during the year.

14. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2007 include one director (2006: one director), whose emoluments are disclosed in Note 13. Details of emoluments of the other four (2006: four) individuals are as follow:

	2007 HK$'000	2006 HK$'000
Salaries and allowances	13,216	8,872
Discretionary bonuses	2,087	13,483
Contribution to retirement benefit schemes	262	422
	15,565	22,777

14. FIVE HIGHEST PAID INDIVIDUALS (Continued)

The emoluments of these four (2006: four) individuals are within the following bands:

	Number of employees	
	2007	2006
HK$2,500,001 – HK$3,000,000	**2**	1
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**	–
HK$11,000,001 – HK$11,500,000	**–**	1
	4	4

No emoluments were paid to the five highest paid individuals as an inducement to join the Group or as compensation for loss of office.

15. PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Freehold land+ HK$'000	Buildings+ HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction-in-progress HK$'000	Total 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**

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 2006							
Cost or valuation	62,811	217,042	303,933	214,124	23,627	1,218	822,755
Accumulated depreciation	–	(38,604)	(233,930)	(174,418)	(19,721)	–	(466,673)
Net book amount	62,811	178,438	70,003	39,706	3,906	1,218	356,082
Year ended 31 December 2006							
Opening net book amount	62,811	178,438	70,003	39,706	3,906	1,218	356,082
Additions	–	4,280	17,387	9,088	2,147	301	33,203
Transfers	–	408	713	405	–	(1,526)	–
Disposals	–	–	(305)	(1,713)	(413)	–	(2,431)
Surplus on revaluation credited to assets revaluation reserve	16,808	38,194	–	–	–	–	55,002
Deficit on revaluation recognised in the income statement	–	(812)	–	–	–	–	(812)
Depreciation	–	(15,739)	(18,386)	(20,068)	(1,573)	–	(55,766)
Exchange differences	6,780	13,847	2,655	1,808	109	68	25,267
Closing net book amount	86,399	218,616	72,067	29,226	4,176	61	410,545
As at 31 December 2006							
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

+ Freehold land is located in Thailand, Taiwan and the Philippines. Freehold land and buildings are carried at fair value. Latest external appraisal was performed 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 2007 would have been HK$262,574,000 (2006: HK$235,048,000) had they been stated at cost less accumulated depreciation.

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 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**

	Plant and Machinery *HK$'000*	Leasehold improvements, furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
As at 1 January 2006				
Cost	33	23,067	1,325	24,425
Accumulated depreciation	(28)	(22,140)	(1,011)	(23,179)
Net book amount	5	927	314	1,246
Year ended 31 December 2006				
Opening net book amount	5	927	314	1,246
Additions	–	12	1,547	1,559
Disposals	–	–	(244)	(244)
Depreciation	(4)	(629)	(302)	(935)
Closing net book amount	1	310	1,315	1,626
As at 31 December 2006				
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

16. INVESTMENT PROPERTIES

	2007 **HK$'000**	2006 HK$'000
As at 1 January		
Cost	**9,067**	9,067
Accumulated depreciation and impairment	**(1,405)**	(213)
Net book amount	**7,662**	8,854
Year ended 31 December		
Opening net book amount	**7,662**	8,854
Depreciation	**(189)**	(214)
Impairment	**–**	(978)
Transfer to non-current asset held for sale	**(5,824)**	–
Closing net book amount	**1,649**	7,662
As at 31 December		
Cost	**2,800**	9,067
Accumulated depreciation and impairment	**(1,151)**	(1,405)
Net book amount	**1,649**	7,662

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

17. LEASEHOLD LAND AND LAND USE RIGHTS

	2007 **HK$'000**	2006 HK$'000
As at 1 January		
Cost	**37,290**	26,920
Accumulated amortisation	**(7,998)**	(7,246)
Net book amount	**29,292**	19,674
Year ended 31 December		
Opening net book amount	**29,292**	19,674
Additions	**422**	9,954
Disposals	**(986)**	–
Amortisation	**(799)**	(657)
Transfer to non-current asset held for sale	**(50)**	–
Exchange differences	**989**	321
Closing net book amount	**28,868**	29,292
As at 31 December		
Cost	**38,254**	37,290
Accumulated amortisation	**(9,386)**	(7,998)
Net book amount	**28,868**	29,292

17. LEASEHOLD LAND AND LAND USE RIGHTS (Continued)

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:

	2007	2006
	HK$'000	*HK$'000*
In Hong Kong		
– Medium-term lease of 10 to 50 years	**7,121**	7,172
Outside Hong Kong		
– Medium-term lease of 10 to 50 years	**21,445**	21,789
– Short-term lease of less than 10 years	**302**	331
	21,747	22,120
	28,868	29,292

18. SUBSIDIARIES

(a) Investments in subsidiaries

	Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	**397,639**	397,639
Amount due from a subsidiary	**78,324**	85,030
Less: Accumulated impairment losses	**(240)**	(240)
	475,723	482,429

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2007.

Amount due from a subsidiary, under investments in subsidiaries, is unsecured, interest free, and is not expected to be repaid within the next 12 months.

(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.

18. SUBSIDIARIES (Continued)

(c) Particulars of principal subsidiaries as at 31 December 2007:

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
A-Grade Garments Manufacturing Corporation	The Philippines	The Philippines	Garment manufacturing	P26,000,000	–	100%	100%
All Asia Garment Industries, Inc.	The Philippines	The Philippines	Factory facilities leasing	P27,425,000	–	100%	100%
All Asia Industries Co., Ltd. *(Note (iii))*	The People's Republic of China	The People's Republic of China	Garment manufacturing	RMB49,016,383	–	100%	100%
All Asia Industrial Co., Ltd.	Taiwan	Taiwan	Sales liaison services and sample making	NT$69,530,000	0.01%	99.99%	100%
All Asia Industries Limited	Hong Kong	Hong Kong	Investment holding	HK$4,000 (ordinary) HK$1,500,600 (deferred) *(Note (i))*	15%	85%	100%
Apparel Trading & Property Ventures, Inc.	The Philippines	The Philippines	Investment holding	P7,500,000 (common)	–	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	0.15%	99.85%	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))*	The People's Republic of China	The People's Republic of China	Management consultancy services	RMB500,000	–	100%	100%
Chochuen Garment (Shenzhen) Co., Ltd. *(Note (iii))*	The People's Republic of China	The People's Republic of China	Garment manufacturing	HK$30,000,000	–	100%	100%
Dress Line Holdings, Inc.	The Philippines	The Philippines	Investment holding	P59,562,500 (common) 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%

18. SUBSIDIARIES (Continued)

(c) Particulars of principal subsidiaries as at 31 December 2007 (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
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	Garment manufacturing and exporting	THB100,000,000 (ordinary)	–	99.86%	99.86%
Guangzhou Tristate Industrial Co., Ltd. *(Note (iii))*	The People's Republic of China	The People's Republic of China	Garment manufacturing	RMB13,226,944	–	100%	100%
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))*	The People's Republic of China	The People's Republic of China	Garment design and provision of technical services	RMB1,500,000	–	100%	100%
Hefei Tristate Garment Manufacturing Company Limited *(Note (iii))*	The People's Republic of China	The People's Republic of China	Garment trading and 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	US$1	–	99.87%	99.87%
Hua Thai Manufacturing Public Company Limited *(Note (iv))*	Thailand	Thailand	Garment manufacturing and exporting	THB100,000,000 (ordinary)	–	99.87%	99.87%
Hua Thai Merchandising (Singapore) Pte Ltd	Singapore	Singapore	Sales liaison and administrative services	SGD2 (ordinary)	–	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%
338 Apparel Limited *(Note (v))*	Hong Kong	Hong Kong	Branded product trading	HK$1,000,000	–	100%	100%
338 Fashion Co. Limited	Hong Kong	Hong Kong	Branded product distribution	HK$3,000,000	–	100%	100%

18. SUBSIDIARIES (Continued)

(c) Particulars of principal subsidiaries as at 31 December 2007 (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
338 Fashion (Macau) Company Limited	Macau	Macau	Branded product distribution	MOP$25,000	–	100%	100%
Joint Holdings & Trading Company Limited	Hong Kong	Hong Kong	Investment holding	HK$925 (ordinary) HK$7,200,075 (deferred) *(Note (i))*	–	100%	100%
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%
Quality Time Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	100%	–	100%
Shanghai Tristate Enterprises Co., Ltd. *(Note (iii))*	The People's Republic of China	The People's Republic of China	Branded product distribution	RMB28,850,000	–	100%	100%
Sigsbee Investment Limited	The Republic of Liberia	Hong Kong	Investment holding	US$1	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	0.01%	99.99%	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%
Zhejiang Huazhang Garment Co., Ltd. *(Note (iii))*	The People's Republic of China	The People's Republic of China	Garment manufacturing	US$3,800,000	–	100%	100%

18. SUBSIDIARIES (Continued)

(c) Particulars of principal subsidiaries as at 31 December 2007 (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-owned foreign investment enterprise established in the PRC.

(iv) The ordinary shares of Hua Thai Manufacturing Public Company Limited ("Hua Thai") were listed on The Stock Exchange of Thailand (the "SET"). On 15 October 2007, the shareholders of Hua Thai approved Hua Thai to make an application to the SET for a delisting of its ordinary shares from the SET. In this connection, Prime-Time Company Limited ("Prime-Time"), a wholly-owned subsidiary of the Company, being the major shareholder of Hua Thai, made a tender offer to acquire all the Hua Thai shares, being approximately 1.05% interest in Hua Thai, not held by Prime-Time when it made the tender offer. The tender offer was closed on 28 December 2007. After the tender offer, Prime-Time held 99.87% interest in Hua Thai. Hua Thai was officially delisted from the SET on 15 January 2008. During the year ended 31 December 2007, the Group acquired a total of 2.54% additional interest in Hua Thai at a total consideration of HK$8,988,000.

(v) During the year, the Group acquired additional 40% interest in 338 Apparel Limited at a consideration of HK$400,000, bringing the Group's interest in the company to 100%.

19. INTANGIBLE ASSETS – LICENSE RIGHTS

Intangible assets represent license rights on branded products.

	2007 **HK$'000**	2006 HK$'000
As at 1 January		
Cost	**68,785**	68,785
Accumulated amortisation	**(13,454)**	(6,480)
Net book amount	**55,331**	62,305
Year ended 31 December		
Opening net book amount	**55,331**	62,305
Addition	**18,269**	–
Amortisation	**(10,162)**	(6,974)
Derecognition *(Note (ii))*	**(45,169)**	–
Closing net book amount	**18,269**	55,331
As at 31 December		
Cost	**18,269**	68,785
Accumulated amortisation	**–**	(13,454)
Net book amount	**18,269**	55,331

Notes:

(i) *License rights represent capitalisation of the expected variable payments based on pre-determined criteria on future revenues from the licensed business that can be reliably estimated at the time of the inception. They are recognised based on discount rates equal to the Group's weighted average borrowing rates of approximately 5% per annum at the dates of inception.*

(ii) *During the year, the Group entered into an agreement to terminate one of the license agreements effective 31 August 2007 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, the franchise agreements between the Group and its franchisees relating to the said 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.*

20. OTHER LONG-TERM ASSETS

	Group		**Company**	
	2007 **HK$'000**	2006 HK$'000	**2007** **HK$'000**	2006 HK$'000
Deposits with a financial institution	**10,606**	10,096	**10,606**	10,096
Club debentures	**1,200**	1,200	**–**	–
Other investment, at cost	**–**	1	**–**	–
	11,806	11,297	**10,606**	10,096

Deposits with a financial institution are denominated in Hong Kong dollars with an effective interest rate of 5.1% per annum (2006: 4.8% per annum).

21. INVENTORIES

	2007 **HK$'000**	2006 *HK$'000*
Raw materials	**198,500**	163,226
Work-in-progress	**116,912**	116,587
Finished goods	**52,026**	56,330
	367,438	336,143

22. ACCOUNTS RECEIVABLE AND BILLS RECEIVABLE

The aging analysis is as follows:

	2007 **HK$'000**	2006 *HK$'000*
Less than 3 months	**355,402**	384,698
3 months to 6 months	**5,284**	6,989
Over 6 months	**2,616**	4,457
	363,302	396,144
Less: provision for impairment of receivables	**(2,616)**	(4,457)
	360,686	391,687

The majority of accounts receivable and bills receivable are covered by letters of credit with bills payable at sight. The remaining portion is on open account with credit term of approximately 30 days and 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 at the reporting date is the fair value of the above receivables. The Group does not hold any collateral as security.

As of 31 December 2007, accounts receivable and bills receivable of HK$102,438,000 (2006: HK$100,837,000) were past due but not impaired. The aging analysis of these receivables is as follows:

	2007 **HK$'000**	2006 *HK$'000*
Less than 3 months	**97,154**	93,848
3 months to 6 months	**5,284**	6,989
	102,438	100,837

The risk of accounts receivable and bills receivable that are neither past due nor impaired as at 31 December 2007 becoming impaired is low as most of the balances related to customers with no history of bad debts or have been settled subsequent to the year end.

As of 31 December 2007, accounts receivable and bills receivable over 6 months of HK$2,616,000 (2006: HK$4,457,000) were considered impaired. The amount of the provision was HK$2,616,000 as of 31 December 2007 (2006: HK$4,457,000).

22. ACCOUNTS RECEIVABLE AND BILLS RECEIVABLE (Continued)

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

	2007	2006
	HK$'000	*HK$'000*
At 1 January	**(4,457)**	(7,379)
Provision/(reversal of provision) for impairment of receivables	**(236)**	745
Receivables written off during the year as uncollectible	**2,077**	2,177
At 31 December	**(2,616)**	(4,457)

The provision and reversal of provision for impaired receivables have been included in general and administrative expenses in the consolidated income statement. 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:

	2007	2006
	HK$'000	*HK$'000*
United States dollars	**341,583**	353,696
Chinese Renminbi	**16,203**	36,944
Hong Kong dollars	**2,625**	433
Others	**275**	614
	360,686	391,687

23. PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables mainly consisted of government incentive receivables arising from reinvestment of profit, advance payments for purchases of raw materials, and rental and utility deposits.

24. NON-CURRENT ASSETS HELD FOR SALE

The Group has entered into an agreement to dispose of an investment property located in Hong Kong for HK$21,000,000. The disposal is scheduled to be completed by 30 April 2008 and the net gain of the disposal is estimated to be approximately HK$15,000,000. The assets relating to this investment property have been presented as non-current assets held for sale.

25. ACCOUNTS PAYABLE AND BILLS PAYABLE

The aging analysis is as follows:

	2007	2006
	HK$'000	*HK$'000*
Less than 3 months	**176,164**	189,922
3 months to 6 months	**6,665**	4,731
Over 6 months	**1,200**	2,244
	184,029	196,897

25. ACCOUNTS PAYABLE AND BILLS PAYABLE (Continued)

Accounts payable and bills payable are denominated in the following currencies:

	2007 **HK$'000**	2006 *HK$'000*
United States dollars	**127,770**	134,381
Hong Kong dollars	**33,324**	30,408
Chinese Renminbi	**16,402**	24,128
Others	**6,533**	7,980
	184,029	196,897

Majority of payment terms with suppliers are on letters of credit. The remaining portion is granted with credit periods ranging from 30 to 60 days.

26. ACCRUALS AND OTHER PAYABLES

Accruals and other payables mainly consisted of accrued operating expenses and accrued employment expenses.

27. BANK BORROWINGS

As at 31 December 2007, bank borrowings were unsecured, due for repayment within three months, and bore interest at rates ranging from 4.5% to 5.9% per annum (2006: 5.5% to 6.4% per annum). The Group's bank borrowings of HK$179,193,000 (2006: HK$107,450,000) were covered by corporate guarantees given by the Company.

Short-term bank borrowings are denominated in the following currencies:

	2007 **HK$'000**	2006 *HK$'000*
United States dollars	**179,193**	107,450
Thai Bahts	**47,899**	56,176
	227,092	163,626

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

28. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS

	Group		**Company**	
	2007 **HK$'000**	2006 *HK$'000*	**2007** **HK$'000**	2006 *HK$'000*
Defined contribution plans *(Note (a))*	**1,247**	794	**–**	–
Defined benefit plans *(Note (b))*	**13,766**	15,156	**–**	–
Long service payment liabilities *(Note (c))*	**8,516**	7,970	**–**	–
Other retirement benefits	**11,898**	12,562	**11,898**	12,562
	35,427	36,482	**11,898**	12,562

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

(a) Defined contribution plans

Forfeited contributions totalling HK$230,000 (2006: HK$95,000) were utilised during the year leaving HK$276,000 (2006: HK$230,000) available at the year-end 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 22% of the basic salaries of their employees to retirement schemes operated by municipal governments. Under the schemes, the employees also contribute 8% of their basic salaries. Other than the mandatory contributions, the Group has no further obligations for the actual pension payments or any post retirement benefits.

(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.

(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.

(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 service.

(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 preceding 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 2007 using the "projected unit credit" method. Based on the actuarial reports, the aggregate market value of the plan assets as at 31 December 2007 was HK$33,738,000, representing approximately 115% of the actuarial accrued liabilities at that date.

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

(b) Defined benefit plans (Continued)

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

	2007 HK$'000	2006 HK$'000
Present value of funded obligations	**29,264**	23,094
Fair value of plan assets	**(33,738)**	(31,209)
	(4,474)	(8,115)
Unrecognised actuarial gain	**18,240**	23,271
Net liability	**13,766**	15,156

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

	2007 HK$'000	2006 HK$'000
Current service cost	**1,304**	898
Interest cost	**1,007**	1,059
Expected return on plan assets	**(1,549)**	(1,503)
Net actuarial gain recognised	**(1,712)**	(738)
Total, included in employment expenses	**(950)**	(284)
Actual return on plan assets	**1,274**	1,933

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

	2007 HK$'000	2006 HK$'000
As at 1 January	**23,094**	23,627
Current service cost	**1,304**	898
Interest cost	**1,007**	1,059
Actuarial loss/(gain)	**3,954**	(2,292)
Exchange differences	**1,178**	820
Benefits paid	**(1,273)**	(1,018)
As at 31 December	**29,264**	23,094
Experience adjustments on plan liabilities	**1,382**	(4,439)

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

(b) Defined benefit plans (Continued)

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

	2007 HK$'000	2006 HK$'000
As at 1 January	**31,209**	28,263
Expected return on plan assets	**1,549**	1,503
Actuarial (loss)/gain	**(346)**	430
Contributions by employer	**691**	755
Exchange differences	**1,908**	1,276
Benefits paid	**(1,273)**	(1,018)
As at 31 December	**33,738**	31,209
Experience adjustments on plan assets	**(346)**	430

The principal actuarial assumptions used are as follows:

	2007	2006
Discount rate	**3% to 7%**	4% to 7%
Expected rate of return on plan assets	**3% to 10%**	3% to 10%
Expected rate of future salary increase	**2% to 7%**	3% to 7%

The Group expects to contribute HK$647,000 to its defined benefit plans in the year ending 31 December 2008 (2007: HK$737,000).

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

	2007	2006
Deposits with financial institutions	**26.8%**	37.8%
Bonds	**44.5%**	16.1%
Stocks	**10.5%**	14.9%
Short term bills	–	14.7%
Government securities	–	10.1%
Other assets	**18.2%**	6.4%

(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 twelve months prior to cessation of employment, subject to a maximum monthly salary of HK$22,500) and years of service, and is reduced by entitlements accrued under the Group's defined contribution retirement schemes.

(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.

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

(c) Long service payment liabilities (Continued)

(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 twelve 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 2007 were carried out by a professionally qualified independent actuarial firm, HSBC Life (International) Limited, using the "projected unit credit" method.

	2007	2006
	HK$'000	*HK$'000*
Present value of unfunded obligations	**11,476**	10,098
Unrecognised actuarial loss	**(2,960)**	(2,128)
Liability in balance sheet	**8,516**	7,970
Current services cost	**1,719**	1,339
Interest cost	**644**	350
Curtailment effect	**(133)**	(241)
Actuarial loss/(gain) recognised	**185**	(805)
Total, included in employment expenses	**2,415**	643

Movement in the present value of unfunded obligations:

	2007	2006
	HK$'000	*HK$'000*
As at 1 January	**10,098**	8,734
Current service cost	**1,719**	1,339
Interest cost	**644**	350
Benefit paid	**(2,253)**	(2,786)
Actuarial loss	**725**	1,455
Exchange difference	**543**	1,006
As at 31 December	**11,476**	10,098
Experience adjustments on unfunded obligations	**1,006**	1,248

The principal actuarial assumptions used are as follows:

	2007	2006
Discount rate	**3% to 9%**	4% to 9%
Expected rate of future salary increase	**2% to 7%**	3% to 8%

29. LICENSE FEES PAYABLE

	2007 **HK$'000**	2006 HK$'000
Within one year	**657**	14,722
In the second year	**2,239**	11,733
In the third to fifth year	**19,125**	38,280
	22,021	64,735
Less: Imputed interest on license fees payable	**(3,752)**	(7,787)
Present value of license fees payable	**18,269**	56,948
Less: Current portion included under accruals and other payables	**(657)**	(14,722)
Non-current portion	**17,612**	42,226
Estimated fair value of:		
Current portion	**657**	14,633
Non-current portion	**17,612**	41,345

License fee payable represents the expected license fees, including periodic payments and expected variable payments based on the pre-determined criteria on future revenues from the licensed business that can be reliably estimated at the time of acquisition. It is recognised based on a discount rate of 5.0% per annum at the date of inception of such obligation, which was determined by reference to the Group's weighted average borrowing rate.

The estimated fair value at the balance sheet date was calculated based on a discount rate of 5.0% (2006: 5.7%) per annum, which was determined by reference to the external borrowing rate to the Group. License fee payable is denominated in Euro as at 31 December 2007 (2006: United States dollars).

30. 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**	
	2007 **HK$'000**	2006 HK$'000	**2007** **HK$'000**	2006 HK$'000
Deferred income tax assets to be recovered:				
– After 12 months	**2,513**	3,672	**282**	247
– Within 12 months	**1,280**	2,865	**–**	–
	3,793	6,537	**282**	247
Deferred income tax liabilities to be realised:				
– After 12 months	**(93,796)**	(104,925)	**–**	–
– Within 12 months	**(2,697)**	(2,918)	**–**	–
	(96,493)	(107,843)	**–**	–
Net deferred income tax (liabilities)/assets	**(92,700)**	(101,306)	**282**	247

30. DEFERRED INCOME TAX ASSETS/LIABILITIES (Continued)

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		Total	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
As at 1 January	**5,270**	6,679	**69,353**	55,369	**43,113**	30,307	**117,736**	92,355
Exchange differences	**–**	–	**2**	–	**2,933**	4,264	**2,935**	4,264
Acquisitions of additional interests in a subsidiary	**–**	–	**575**	84	**–**	–	**575**	84
Revaluation of freehold land and buildings	**–**	–	**–**	–	**–**	10,442	**–**	10,442
Recognised in the income statement	**93**	(1,409)	**(8,135)**	13,900	**(2,697)**	(1,900)	**(10,739)**	10,591
Charged to equity arising from change in tax rate	**–**	–	**–**	–	**643**	–	**643**	–
As at 31 December	**5,363**	5,270	**61,795**	69,353	**43,992**	43,113	**111,150**	117,736

Deferred income tax assets

	Provisions		Decelerated tax depreciation		Tax losses		Others		Total	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
As at 1 January	**7,321**	8,874	**2,884**	1,131	**6,225**	260	**–**	15	**16,430**	10,280
Exchange differences	**389**	931	**18**	–	**442**	37	**–**	–	**849**	968
Recognised in the income statement	**(1,721)**	(2,484)	**1,552**	1,753	**1,340**	5,928	**–**	(15)	**1,171**	5,182
As at 31 December	**5,989**	7,321	**4,454**	2,884	**8,007**	6,225	**–**	–	**18,450**	16,430

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2007, the Group did not recognise deferred income tax assets of HK$32,018,000 (2006: HK$29,266,000) for tax losses that can be carried forward against future taxable income. The cumulative tax losses of HK$102,375,000 (2006: HK$101,179,000) can be carried forward indefinitely, while tax losses of HK$51,492,000 (2006: HK$37,679,000) will expire, if not utilised, within the next five years.

31. SHARE CAPITAL

	2007 HK$'000	2006 HK$'000
Authorised:		
500,000,000 (2006: 500,000,000) shares of HK$0.10 each	50,000	50,000
Issued and fully paid:		
268,735,253 (2006: 268,735,253) shares of HK$0.10 each	26,874	26,874

32. RESERVES

Group

	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 30)	–	–	–	(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	

32. 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 2006	8,124	115,421	55,868	25,943	(140,733)	265,630	117,413	269,205	716,871
Revaluation surplus on freehold land and buildings	–	–	–	55,002	–	–	–	–	55,002
Deferred tax impact on revaluation (Note 30)	–	–	–	(10,442)	–	–	–	–	(10,442)
Currency translation differences	–	–	–	–	32,039	–	–	–	32,039
Profit for the year	–	–	–	–	–	–	–	115,359	115,359
Transfer	–	1,506	–	–	–	–	–	(1,506)	–
Transfer	–	–	650	–	–	–	–	(650)	–
Dividends paid to equity holders of the Company	–	–	–	–	–	–	–	(59,121)	(59,121)
As at 31 December 2006	8,124	116,927	56,518	70,503	(108,694)	265,630	117,413	323,287	849,708
Representing:									
Proposed dividend								29,561	
Others								293,726	
								323,287	

32. RESERVES (Continued)

Company

	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	

	Share premium *HK$'000*	Contributed surplus *HK$'000*	General reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
As at 1 January 2006	8,124	321,020	110,000	71,377	510,521
Profit for the year	–	–	–	72,710	72,710
Dividends paid to equity holders of the Company	–	–	–	(59,121)	(59,121)
As at 31 December 2006	8,124	321,020	110,000	84,966	524,110
Representing:					
Proposed dividend				29,561	
Others				55,405	
				84,966	

(a) The 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 2007 (2006: 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 its 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.

For the year ended 31 December 2007, the subsidiaries in the Mainland China have transferred HK$6,020,000 (2006: HK$650,000) to statutory reserves.

(d) Capital reserve mainly represents capitalisation of retained earnings of subsidiaries.

33. SHARE OPTION SCHEME

The Company has the following share option schemes as described below:

(i) 1997 Share Option Scheme

The Company has adopted a share option scheme (the "1997 Share Option Scheme") in November 1997, under which the directors of the Company may, at their discretion, invite any full-time employees (including executive directors) of the Company or its subsidiaries to take up options upon payment of HK$1.00 by each grantee as consideration for the options to subscribe for shares in the Company. Each option entitles the grantee to subscribe for one share in the Company and the subscription price is determined by the Board of Directors at a price not less than 80% of the average of the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Hong Kong Stock Exchange for the five business days immediately preceding the date of offer of the option or the nominal value of the shares, whichever is the higher. An option is exercisable at any time during a period determined by the Board of Directors or is exercisable according to restrictions imposed by the Board of Directors. The expiry dates of the options granted are the earlier of (i) the date falling on the expiry of three years after their respective dates of grant, and (ii) the date falling on the expiry of ten years from November 1997.

With effect from 1 September 2001, the Hong Kong Stock Exchange requires that the exercise price of options to be at least the higher of the closing price of the shares on the Hong Kong Stock Exchange on the date of grant and the average closing prices of the shares on the Hong Kong Stock Exchange for the five trading days immediately preceding the date of grant.

The Company has not granted any options pursuant to the 1997 Share Option Scheme during the year ended 31 December 2007 (2006: Nil). The 1997 Share Option Scheme was cancelled in June 2007.

(ii) 2007 Share Option Scheme

During the year, the Company adopted a new 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 of Directors, to employees and officers including, but not limiting to, directors, senior vice presidents, factory general managers, vice presidents and other full-time employees, of the Company or its subsidiaries. The grantee shall pay HK$1.00 (or its equivalent) upon acceptance of the options to subscribe for shares in the Company. 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 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 and the period within which the options must be exercised will be determined by the Board of Directors at the time the option is offered.

As at 31 December 2007, no share options had been granted or were outstanding under the 2007 Share Option Scheme.

34. COMMITMENTS

(a) Operating lease commitments

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

	2007 **HK$'000**	2006 HK$'000
Not later than 1 year	**35,543**	20,624
Later than 1 year and not later than 5 years	**37,134**	15,761
Later than 5 years	**15,725**	15,290
	88,402	51,675

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

	2007 **HK$'000**	2006 HK$'000
Not later than 1 year	**570**	1,166
Later than 1 year and not later than 5 years	**84**	438
	654	1,604

(b) Capital commitments

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

	2007 **HK$'000**	2006 HK$'000
Contracted but not provided for	**10,404**	–
Authorised but not contracted for	**–**	21,318
	10,404	21,318

35. RELATED PARTY TRANSACTIONS

The Group is controlled by Silver Tree Holdings Inc., which owns 66.40% of the Company's issued shares as at 31 December 2007.

(a) Transaction with a related party

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

	Group	
	2007 **HK$'000**	2006 HK$'000
TDB Company Limited		
Rental expense *(Note)*	**4,457**	4,457

Note:

The entire issued share capital of TDB Company Limited 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.

35. RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with subsidiaries

	Company	
	2007	2006
	HK$'000	*HK$'000*
Transactions with subsidiaries		
Service fee charged to subsidiaries	**42,698**	42,160
Service fee charged by a subsidiary	**2,596**	2,504

(c) Key management compensation

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Salaries, allowances and bonuses	**23,742**	33,990	**17,644**	28,881
Defined contribution plans	**550**	767	**451**	569
Other retirement benefits	**574**	367	**574**	367
	24,866	35,124	**18,669**	29,817

36. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2007	2006
	HK$'000	*HK$'000*
Profit before income tax	**149,601**	146,065
Adjustments for:		
Depreciation on property, plant and equipment	**51,088**	55,766
Revaluation deficit on buildings	**–**	812
Depreciation on investment properties	**189**	214
Impairment of investment properties	**–**	978
Amortisation of leasehold land and land use rights	**799**	657
Amortisation of license rights	**10,162**	6,974
Net gain on disposals of property, plant and equipment and leasehold land	**(1,955)**	(371)
Gain on disposal of an investment	**(43)**	(576)
Gain from acquisitions of additional interests in subsidiaries	**(203)**	(590)
Gain arising on termination of a license right	**(11,428)**	–
Finance income	**(11,758)**	(10,494)
Finance costs	**12,192**	11,610
Effect of foreign exchange rate changes	**2,461**	6,245
	201,105	217,290
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation)		
Increase in inventories	**(31,295)**	(36,006)
Decrease/(increase) in accounts receivable and bills receivable	**31,001**	(89,204)
Increase in prepayments and other receivables	**(22,132)**	(3,608)
(Decrease)/increase in accounts payable and bills payable	**(12,868)**	17,288
Increase/(decrease) in accruals and other payables	**3,733**	(27,320)
Decrease in retirement benefits and other post retirement obligations	**(1,055)**	(906)
Cash generated from operations	**168,489**	77,534

36. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

	2007	2006
	HK$'000	*HK$'000*
Net book amount	**3,519**	2,431
Net gain on disposals	**1,955**	371
Proceeds from disposals	**5,474**	2,802

37. POST BALANCE SHEET EVENT

In March 2008, the Group completed its acquisition of Velmore Holdings Limited ("Velmore") and its subsidiaries (the "Velmore Group") for a cash consideration of approximately HK$180 million (equivalent of GBP11,614,000), which is to be adjusted with reference to the audited net assets value of the Velmore Group as at the completion date in accordance with the terms of the relevant acquisition agreement. Velmore Limited, the principal subsidiary of Velmore, is a full service vendor to a renowned retail chain in the United Kingdom. The fair value of Velmore's assets and liabilities at the completion date and accordingly the related goodwill resulting from the acquisition are not yet available as at the date of these financial statements.

38. ULTIMATE HOLDING COMPANY

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