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CHING HING GROUP

CHING HING (HOLDINGS) LIMITED

Stock Code: 692

2008 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive directors:

Mr. Yiu Ching On *(Chairman)*
Mr. Yiu Kwok Ming, Tommy
(Vice-Chairman and Managing Director)
Mr. Leung Kwok Ip
Mr. Wong Wai Man

Independent non-executive directors:

Mr. Cheung Cho Yiu
Mr. Chan Kin Wah, Billy
Mr. Liang Jin An

COMPANY SECRETARY

Mr. Wong Ho Yin

SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDITORS

Cachet Certified Public Accountants Limited
Certified Public Accountants
13F Neich Tower
128 Gloucester Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of China Limited, Nantou Branch
Edward Wong Credit Limited
Shanghai Commercial Bank Limited
Bank of Communications Co., Limited

LEGAL ADVISORS

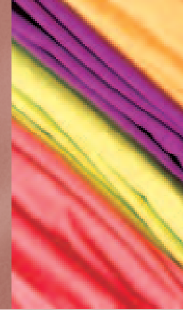
W.K. To & Co.

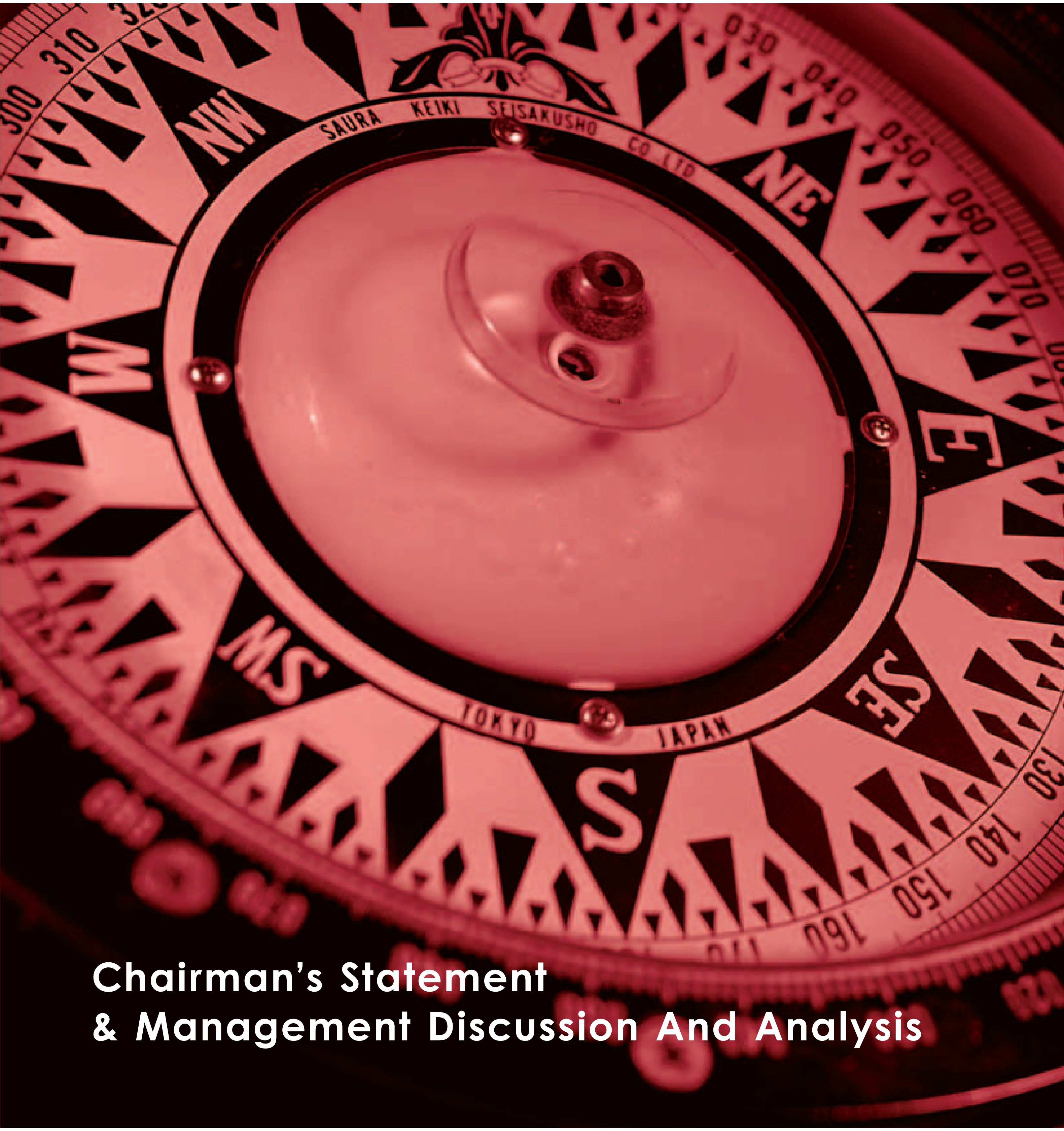
REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

10th Floor
International Industrial Building
501-503 Castle Peak Road
Kowloon
Hong Kong





Chairman's Statement & Management Discussion And Analysis

To Shareholders,

On behalf of the board of directors of the Company, I hereby present the annual report for the year ended 31 December 2008.

FINAL DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2008.

FINANCIAL RESULTS

During the year under review, the global once-in-a-century credit tsunami brought chaos and recessions to the world economy. Although the Group made special efforts to maintain the total revenue from continuing operations and discontinued operation at approximately HK$297.8 million, it could not avoid a significant rise in net loss attributable to the equity holders to approximately HK$44.2 million for the year ended 31 December 2008, as compared with a net loss of approximately HK$9.2 million last year.

In view of the continuous surge in production costs, appreciation of the Renminbi and tightened environmental requirements in the People's Republic of China (the "PRC") and unprecedented changing operating environment, the Group terminated the fabric processing business during the year.

Revenue from continuing operations increased by approximately HK$29.5 million over last year to approximately HK$287 million. The increase was mainly due to the continuously growth of revenue in trading of garments and other related accessories during the year.

Compared with the fabric trading business of the Group, the amount of trading of garments and other related accessories per order was relatively larger but lower in gross profit margin. Moreover, as a result of the termination of the fabric processing operation, the Group from time to time disposed the slow-moving finished goods of fabric trading business stored in the manufacturing factory at a price lower than its average profit margin. The sum of these effects led the Group's overall gross profit margin from continuing operations dropping to approximately 7.7% as compared with approximately 14.7% of last year. The respective gross profit for the year also reduced to approximately HK$22.2 million.

Distribution costs included costs related to sales and marketing functions of the Group and were varied with the revenue. The increase in distribution costs from continuing operations by approximately HK$0.6 million to approximately HK$17 million was also because of the growth of business in trading of garments and other related accessories.

Administrative expenses from continuing operations increased by approximately HK$2.1 million during the year as compared with last year. Such increase mainly arose from the administrative expenses of a new subsidiary, which engaged in trading of dyed fabrics and was formed in the second half of 2007.

Other operating expenses from continuing operations were composed of a write off of deposit paid and other preliminary expenses of approximately HK$2.7 million and a write off and impairment of trade and bills receivables and other receivables approximately HK$3.1 million. The Group planned to diversify into the railway catering services in the PRC in 2008. However, as the economic downturn in the PRC and the strategic partner failed to comply with the joint venture contracts, to protect the best interest of the shareholders, the Group decided to terminate the investment and wrote off the deposit paid and other preliminary expenses. On the other hand, the Group consistently adopted a conservative policy on full provision for impairment of the receivables ageing over one year and a 50% general provision for those aging over half year. As the economy has deteriorated during the year under review, the customers deferred to repay the debts and caused a significant increase in the respective provision. To tackle such potential problem, the Group only accepted orders from customers with good repayment record and requested for post-dated cheque payments and/or letters of credit settlements before delivery of goods.

During 2007, the source of funding of the Group was mainly from the placing of shares on 12 July 2007 and the Group's reliance on bank financing was relatively low. However, as the expansion of the operation of trading of garments and other related accessories, the Group utilised its banking facilities and caused a increase in finance costs from continuing operations to approximately HK$4.3 million.

REVIEW OF OPERATION

The Group was engaged in the sale of fabrics and the sale of garment and accessories during the year under review and discontinued the provision of fabric processing services in August 2008.

Sale of Fabrics

Revenue generated from sale of fabrics decreased by approximately HK$19.2 million to approximately HK$68 million. The decrease was mainly due to the drop in revenue contributed from fabric trading in the PRC. Since the Group's production base was situated in Guangdong Province, the Group's sales and marketing functions of fabric trading are used to concentrate their sales orders solicitation activities in Hong Kong and southern region of the PRC. Since 2007, most of the fabric trading customers have started to move their sourcing bases to northern region of the PRC, such as Hubei and Zhejiang Provinces, to lower their production costs. Moreover, after the new Labour Contract Law coming into effect in 2008 resulting in higher labour cost, the number of garment manufacturing factories in Guangdong Province had reduced dramatically. Therefore the Group further downsized its sales team in the PRC, particularly after the closure of the Group's dyeing factory.

In addition, almost 31.4% of the dyed fabrics (in term of revenue) were processed by the Group's terminated dyeing factory. As a result of the gradual reduction of production quantity of the dyeing factory and high inflationary pressure in the PRC during the first half of 2008, the Group's weighted average costs of sales reached its record high and caused a significant increase in the segment loss. In order to maintain the profit margin, the Group had gradually outsourced its fabric processing operation to fabric suppliers located in northern region of the PRC which could offer fabrics with industrially recognised quality at lower prices. Currently, the Group has already well established a close network of production bases in these regions and capitalised its sourcing edge.

Sale of Garments and Accessories

Revenue generated from sale of garments and other related accessories showed a continuous growth to approximately HK$219 million and the segment result showed a steady growth to approximately HK$12.9 million.

The Group principally acquired garments from suppliers situated in South Asia, such as Bangladesh. The countries over there could provide abundant labour force with low cost of production. The Group then exported garments to certain major retailers and department stores in the United States. The sales and purchases of the segment were transacted in United States dollars and exchange risk was considered to be minimal to the Group. With the competitive advantages, such as comprehensive quality control system and relatively steady financial supports, the Group only faced moderate rivalry from garment competitors. Furthermore, the Group had set up liaison offices in South Asia to closely monitor the production progress of garment suppliers and to continuously switch to production bases with lower costs to further maximise the return of the Group. Despite the worldwide fallout from the sub-prime crises, the Group expects the results of this operation will remain stable.

Fabric Processing (Discontinued Operation)

Together with loss on write off and disposal of property, plant and equipment of approximately HK$4.2 million and compensation paid to employees on termination of employment of about HK$3 million, the discontinued fabric processing operation recorded a loss of approximately HK$16.3 million.

Since the second half of 2007, the Group had started its strategy in reducing reliance on purely fabric processing services provided by its own dyeing factory in Zhongshan City, Guangdong Province and reallocating its resources to another profitable business, such as garments trading. As under the adverse impact of continuing appreciation of Renminbi, spiral increases in costs of raw materials and the strict enforcement of the environment laws and regulations in Guangdong Province, the Group has foreseen that further cash outlays from the Group was unavoidable if it continued the fabric processing business. At the same time, the slowdown of the economy brought uncertainties over the operating environment in the Pearl River Region. After carefully evaluating the profitability and prospect of this operation, the Group terminated the fabric processing business during the year under review.

The Group currently maintained its plant and machineries in the factory in its workable conditions and classified as asset held for disposal of approximately HK$15.4 million as at year end date and the Group has taken steps to sell those plant and machineries to interested buyers. The factory buildings comprises a site with an area of approximately 65,333 square metres and the Group will lease out to interested parties.

PROSPECT AND OUTLOOK

In the midst of the financial tsunami, the Group expects that the growth in the textile industry will be moderate in 2009. Although the challenges in the industry remain inevitably severe, after the termination of the inefficient operation, the Group will stick to its profit-oriented strategy and pursue a turnaround result in a foreseeable future. The Group will adopt the following approaches to keep a steady pace of development:

1. Carefully forming strategic alliance with sales persons with high marketing caliber to enhance our market positions;

2. Cautiously sourcing dyed fabrics from reliable fabric suppliers to maintain quality and volume;

3. Closely managing the credit risk of the customers to avoid doubtful debts;

4. Diversifying the customer bases in the sale of garments and accessories to minimise the downside exposure caused by the financial crisis; and

5. Taking measures to streamline the workforce to enhance efficiency of each operation.

LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 2008, the Group had total assets of HK$149.5 million which were financed by total liabilities of HK$84.9 million and equity of HK$64.6 million. Accordingly, the Group's ratio of debts to total assets and debts to equity remained at 56.8% (2007: 56.8%) and at 131% (2007: 131%), respectively.

The Group generally financed its operation by internal cash resources and bank financing. At 31 December 2008, the Group had cash on hand, bank deposits and bank balances for an aggregate amount of about HK$31.8 million (of which about HK$19.5 million was pledged with banks for banking facilities for the Group) and unutilised banking facilities for a total of about HK$108.4 million, which we consider sufficient for normal daily operation and expansion.

APPRECIATION

I wish to extend my most sincere thanks and appreciation to staff at all level within the Group and my fellow directors of their collective efforts, loyalty and continuing support to the Group during the year.

Yiu Ching On
Chairman

Hong Kong, 22 April 2009

EXECUTIVE DIRECTORS

Mr. Yiu Ching On, aged 73, is the Chairman of the Company and founder of the Group. He is responsible for the development of the strategic planning of the Group and liaising with various local government authorities in the PRC. He has extensive experience in textile and dyeing industries in Hong Kong and the PRC. He was the vice-chairman of The Hong Kong Association of Textile Bleachers, Dyers, Printers and Finishers Limited. He is the father of Mr. Yiu Kwok Ming, Tommy.

Mr. Yiu Kwok Ming, Tommy, aged 47, is the Vice-Chairman and the Managing Director of the Company. He is responsible for the business development of the Group and the overall management of the Group's production facilities in Zhongshan, the PRC. He also assists in liaising and maintaining relationship with various local government authorities in the PRC. He has extensive experience in the textile and dyeing industries in Hong Kong and the PRC. He holds a bachelor degree in accounting from San Francisco State University of California. Prior to joining the Group in 1987, he worked for Exxon Corporation, a listed company in the United States, in its accounting and administration division. He is a son of Mr. Yiu Ching On.

Mr. Leung Kwok Ip, aged 50, is responsible for seeking fabric processing orders and sale orders of dyed fabrics for the Group. He has over 20 years of experience in fabric processing industry and has deep connection and relationship with people engaged in this industry. Prior to joining the Group in mid 2002, he served as a Sales Manager in a well-known fabric processing factory in Hong Kong which operated a production plant situated in Shenzhen, the PRC for about 16 years.

Mr. Wong Wai Man, aged 41, is an associate member of the Hong Kong Institute of Certified Public Accountants. He holds a Bachelor of Arts Degree in Accountancy from Hong Kong Polytechnic University. Prior to joining the existing Group in early 2001, he had gained extensive experience in accounting and auditing practices in Ernst & Young and had served as Financial Controller and Company Secretary in a main-board listed company in Hong Kong for about five years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Cho Yiu, aged 44, was appointed as an independent non-executive director on 7 August 2007. He has over 20 years of experience in corporate management in trading business. He is currently a director of a privately-owned motor trading company in Hong Kong. He is also the past president of The Rotary Club of Kowloon East, Hong Kong and is actively participating in various charitable activities.

Mr. Chan Kin Wah, Billy, aged 45, was appointed as an independent non-executive director on 25 July 2007. He has over 15 years of experience in accounting, finance and taxation fields. He is an associate member of the Hong Kong Institute of Certified Public Accountants, a CPA member of CPA Australia and a non-practicing member of the Chinese Institute of Certified Public Accountants. He holds a Bachelor of Administration Degree from the University of Ottawa in Canada and a Master of Commerce Degree in Professional Accounting from the University of New South Wales in Australia.

Mr. Liang Jin An, aged 42, was appointed as an independent non-executive director on 25 July 2007. He has over 20 years of experience in finance, general management and property development in the PRC. He is currently a vice president and vice general manager of a privately-owned cosmetics manufacturing company in Guangzhou, the PRC. He was previously the financial controller and vice general manager of a well established property developer in Guangzhou from 1997 to 2005.

SENIOR MANAGEMENT

Mr. Wong Ho Yin, aged 38, is the Financial Controller and Company Secretary of the Group. He is a member of the Hong Kong Institute of Certified Public Accountants. He holds a Bachelor of Arts Degree in Accountancy from Hong Kong Polytechnic University. Prior to joining the Group in mid 2001, he had worked in a local medium-size accounting firm for about four years. He has extensive experience in accounting and corporate compliance.

CORPORATE GOVERNANCE PRACTICES

The Board of Directors and senior management of the Company are committed to implement effective corporate governance policies to ensure that all decisions are made in the best interest of the Company and in accordance with the principles of transparency, fairness and integrity. Effective corporate governance policies have also been provided for the necessary checks and balances. The Company will continue to improve its corporate governance structure, so as to strengthen corporate monitoring and management to meet the expectations of its shareholders and stakeholders.

For the year under review, the Company has complied with all applicable code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. As confirmed by all directors after specific enquiry, all directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

BOARD OF DIRECTORS

As at 31 December 2008, the Board comprises four executive directors, namely Mr. Yiu Ching On (Chairman), Mr. Yiu Kwok Ming, Tommy (Vice Chairman and Managing Director), Mr. Leung Kwok Ip and Mr. Wong Wai Man and three independent non-executive directors, namely Mr. Cheung Cho Yiu, Mr. Chan Kin Wah, Billy and Mr. Liang Jin An. The independent non-executive directors are all experienced individuals from a range of industries. Their mix of skills and experience is an important element in the proper functioning of the board and in ensuring a high standard of objective debate and overall input to the decision-making process. The independent non-executive directors may seek for professional advice at the Company's expenses in carrying out their functions. Pursuant to the Listing Rules, every independent non-executive director has confirmed his independence with the Stock Exchange. The biographical details of all directors and their family relationship, if any, are provided on pages 8 to 9 of this annual report. The Board had arranged insurance cover for their directors.

The Board is accountable to shareholders. Its key responsibilities include the formulation of long-term business directions and strategies, monitoring of internal control, review of financial statements and approval of capital expenditures. The management is delegated with the authority to make decisions on daily operations related to the Company's business affairs. The Board reviews the performance of the management to ensure company policies are carried out properly and the business is run smoothly in the best interest of its shareholders.

Directors are entitled to seek independent professional advice at the Company's expense in connection with their duties and responsibilities as directors, subject to the prior consent of the Chairman.

Five full board meetings were held during the year, three of which were held through telephone conference. Meeting agenda were settled by the Chairman or Vice-Chairman to ensure adequate coverage of financial, strategic and major risk areas throughout the year.

Members	**Number of Board meetings attended/held**	**Percentage of Board meetings attended**
Executive directors		
Mr. Yiu Ching On	5/5	100%
Mr. Yiu Kwok Ming, Tommy	5/5	100%
Mr. Leung Kwok Ip	4/5	80%
Mr. Wong Wai Man	5/5	100%
Independent non-executive directors		
Mr. Cheung Cho Yiu	5/5	100%
Mr. Chan Kin Wah, Billy	5/5	100%
Mr. Liang Jin An	5/5	100%

CHAIRMAN AND CHIEF EXECUTIVE OFFICER (“CEO”)

The posts of Chairman and CEO are separate. There is a clear distinction between their responsibilities. The Chairman is responsible for the Company’s overall business directions and coordination between the Board and the Company’s management, and the CEO is responsible for the business operations and executions of decisions made by the Board.

TERMS OF APPOINTMENTS AND RE-ELECTION OF DIRECTORS

At every annual general meeting (“AGM”), one third of the directors (other than the Chairman and CEO but including independent non-executive directors), or the nearest number to one third, shall retire from office and be eligible for re-election. A director appointed since the most recent AGM shall hold office only until the next annual general meeting and shall then be eligible for re-election. The directors to retire each year shall be the directors longest in office since being elected or re-elected. The independent non-executive directors were appointed at specific terms for three years.

AUDIT COMMITTEE

The monitoring and assessment of certain governance matters are allocated to committees which operate under defined terms of reference and are required to report to the full board on a regular basis.

The Audit Committee is responsible for monitoring reporting, accounting, financial and control aspects of the executive management's activities. It also monitors the function of the group's external auditors. The Audit Committee comprises three independent non-executive directors, namely Mr. Chan Kin Wah, Billy (Chairman of the Committee), Mr. Cheung Cho Yiu and Mr. Liang Jin An. Two meetings were held during the year.

Members	Number of Audit Committee meetings attended/held	Percentage of Audit Committee meetings attended
Independent non-executive directors		
Mr. Chan Kin Wah, Billy	2/2	100%
Mr. Cheung Cho Yiu	2/2	100%
Mr. Liang Jin An	2/2	100%

REMUNERATION COMMITTEE

The Remuneration Committee was established to determine the compensation structure and rewards for the CEO and other executive directors and monitors the policies being applied in remunerating other senior executives. The Remuneration Committee comprises three independent non-executive directors, namely Mr. Liang Jin An (Chairman of the Committee), Mr. Chan Kin Wah, Billy and Mr. Cheung Cho Yiu, and one executive director, namely Mr. Yiu Kwok Ming, Tommy. During the year, one Remuneration Committee meeting had been convened to discuss the remuneration policy of the Group.

Members	Number of Remuneration Committee meetings attended/held	Percentage of Remuneration Committee meetings attended
Executive director		
Mr. Yiu Kwok Ming, Tommy	1/1	100%
Independent non-executive directors		
Mr. Liang Jin An	1/1	100%
Mr. Chan Kin Wah, Billy	1/1	100%
Mr. Cheung Cho Yiu	1/1	100%

FINANCIAL REPORTING

It is the responsibility of the Board to present a balanced, clear and comprehensive assessment of the Company's performance, position and prospects. The Board acknowledge their responsibility for the preparation of accounts which give a true and fair view. The financial statements are prepared in accordance with the requirements of the Listing Rules and other applicable regulations and industry best standards.

The responsibilities of independent external auditors to the shareholders are set out on pages 23 to 24 of this annual report.

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Audit Department was established to evaluate the effectiveness of internal control systems and to ensure the systems can meet the Group's particular needs and the risks to which it is exposed. It also assists the Audit Committee and the Board to review the completeness, accuracy and fairness of the financial statements, though the Board is responsible for the preparation of financial statements which give a true and fair view.

The Board has conducted a review of the effectiveness of the system of internal control of the Group by engaging an independent accounting firm to conduct regular half-year reviews of the internal control system together with the Internal Audit Department. The reviews have covered all material controls, including financial, operating and compliance controls, and risk management functions. Regular review reports were submitted to the Board and the Audit Committee for comments and approval. Based on all findings and conclusions deduced from the review reports, the Board considers that the internal control systems of the Group are effective and adequate.

EXTERNAL AUDITORS

The Company's independent external auditors are Cachet Certified Public Accountants Limited. The Audit Committee is responsible for considering the appointment of the external auditors and also reviews any non-audit functions performed by the external auditors for the Group. In particular, the Audit Committee will consider, in advance of them being contracted for and performed, whether such non-audit functions could lead to any potential material conflict of interest.

During the year ended 31 December 2008, the services provided by the Company's independent external auditors to the Group were as follows:

	2008	2007
	HK$'000	*HK$'000*
Audit services	**340**	350
Other assurance services	**—**	170

COMMUNICATIONS WITH SHAREHOLDERS

The Company uses a number of formal communication channels to account to shareholders for the performance of the Company. These include the Annual Report, the Interim Report, periodic announcements made through the Stock Exchange and through AGM. Copies of relevant corporate and financial information are also made available through the Company's website: www.ching-hing.com.hk.

The Company aims to provide its shareholders and potential investors with high standards of disclosure and financial transparency. In order to provide effective disclosure to investors and potential investors and to ensure they all receive equal access to the same information at the same time, information considered to be of a price sensitive nature is released by way of formal public announcements as required by the Listing Rules. The Company also welcomes comments and questions from shareholders at its AGM.

The directors submit their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 18 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 92.

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 28 and note 32 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2008, the Company had no distributable reserves. However, the Company's share premium account, in the amount of HK$71,148,000, may be distributed in the form of fully paid bonus shares and the Company's contributed surplus is available for distribution under the conditions as detailed in note 32b to the financial statements.

DONATIONS

During the year, the Group made charitable donations amounting to HK$97,000.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of the movements in property, plant and equipment and investment properties of the Group are set out in notes 15 and 17 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 31 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group at 31 December 2008 are set out in notes 25 and 29 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 94.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

DIRECTORS

The directors during the year were:

Executive directors

Mr. Yiu Ching On
Mr. Yiu Kwok Ming, Tommy
Mr. Leung Kwok Ip
Mr. Wong Wai Man

Independent non-executive directors

Mr. Cheung Cho Yiu
Mr. Chan Kin Wah, Billy
Mr. Liang Jin An

In accordance with Clause 99 of the Company's bye-laws, Mr. Leung Kwok Ip, Mr. Wong Wai Man and Mr. Cheung Cho Yiu will retire by rotation at the forthcoming annual general meeting. All the retiring directors are eligible for re-elections.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in "Related party transactions" set out in note 39 to the financial statements, no other contracts of significance in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors are set out on pages 8 to 9.

DIRECTORS' INTERESTS IN SECURITIES

At 31 December 2008, the directors or their associates have the following interests or short positions in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Shares — long position

The Company:

	Number of shares held				
Name of directors	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**
Mr. Yiu Ching On	4,752,000	32,618,000 *(note a)*	300,000 *(note b)*	117,618,055 *(note d and e)*	155,288,055
Mr. Yiu Kwok Ming, Tommy	2,100,000	2,610,637	49,857,142 *(note c)*	117,618,055 *(note d)*	172,185,834
Mr. Wong Wai Man	270,000	—	—	—	270,000

Notes:

(a) Such shares are beneficially owned by his spouse, Ms. Wong Kai Chun.

(b) Such shares are beneficially owned by Gaport Limited, the entire issued share capital of which is owned, as to 50% by, Mr. Yiu Ching On, 25% by Ms. Wong Kai Chun and 25% by Mr. Yiu Kwok Yung (the son of Mr. Yiu Ching On and the younger brother of Mr. Yiu Kwok Ming, Tommy).

(c) Such shares are beneficially owned, as to 19,857,142 shares by Cotton Row Limited and as to 30,000,000 shares by Happy Joy Limited. The entire issued share capital of each of Cotton Row Limited and Happy Joy Limited is beneficially owned by Mr. Yiu Kwok Ming, Tommy.

(d) Jarak Assets Limited holds the 117,618,055 shares. The entire issued share capital of Jarak Assets Limited is owned, as to 5.02% by Happy Joy Limited and as to 94.98% by Determine Win Investments Limited in its capacity as the trustee of The Yiu's Family Unit Trust, 99.99% units in issue of which is owned by HSBC International Trustee Limited as the trustee of The Yiu's Family Trust, the beneficiaries (after the death of the last to die of Mr. Yiu Ching On and Ms. Wong Kai Chun) of which include, among others, Mr. Yiu Kwok Ming, Tommy, Mr. Yiu Kwok Yung, (the younger brother of Mr. Yiu Kwok Ming, Tommy) and the issues of Mr. Yiu Kwok Ming, Tommy and Mr. Yiu Kwok Yung.

(e) Mr. Yiu Ching On is the founder of The Yiu's Family Trust, a discretionary trust.

Associated corporation:

Name of associated corporation	Name of director	Personal interests	Family interests	Corporate interests
Ching Hing Weaving Dyeing & Printing Factory Limited	Mr. Yiu Ching On	14,196,591	376,427 *(note b)*	28,023,134 *(note c)*
	Mr. Yiu Kwok Ming, Tommy	—	1,000,000 *(note b)*	—

Notes:

(a) The above represent interests in non-voting deferred shares.

(b) Such non-voting deferred shares are beneficially owned by the spouse of the respective directors.

(c) Filand Limited and Clear Picture Holdings Limited, companies wholly-owned by Mr. Yiu Ching On, the chairman of the Company, beneficially owned 10,633,875 and 17,389,259 non-voting deferred shares respectively.

Interest in underlying shares

The directors of the company have been granted options under the Company's share option scheme, details of which are set out in note 33 to the financial statements.

Save as disclosed above and note 33 to the financial statements, at no time during the year had the directors (including their spouse and children under 18 years of age) have any interest in, or been granted, or exercised, any rights to subscribe for shares or debentures of the Company and its associated corporations.

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2008, the following parties (other than the directors) have long positions in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Interest in shares

Name	Number of shares held	Percentage of issued share capital at 31 December 2008
Ms. Wong Kai Chun *(notes a and b)*	155,288,055	40.4%
Jarak Assets Limited *(note b)*	117,618,055	30.6%
Determine Win Investments Limited *(note b)*	117,618,055	30.6%
HSBC International Trustee Limited *(note c)*	117,618,055	30.6%
HSBC Investment Bank Holdings B.V. *(note c)*	117,618,055	30.6%
HSBC Holdings B.V. *(note c)*	117,618,055	30.6%
HSBC Finance (Netherlands) *(note c)*	117,618,055	30.6%
HSBC Holdings plc *(note c)*	117,618,055	30.6%
Happy Joy Limited *(note d)*	30,000,000	7.8%
Cotton Row Limited *(note d)*	19,857,142	5.2%

Notes:

(a) Ms. Wong Kai Chun is the spouse of Mr. Yiu Ching On, the Chairman of the Company.

32,618,000 shares are beneficially owned by her. 4,752,000 shares are beneficially owned by her spouse and 300,000 shares are beneficially owned by Gaport Limited, the entire issued share capital of which is owned as to 50% by her spouse, 25% by her and 25% by Mr. Yiu Kwok Yung, the son of hers.

(b) Jarak Assets Limited holds the 117,618,055 shares. The entire issued share capital of Jarak Assets Limited is owned, as to 5.02% by Happy Joy Limited and as to 94.98% by Determine Win Investments Limited in its capacity as the trustee of The Yiu's Family Unit Trust, 99.99% units in issue of which is owned by HSBC International Trustee Limited as the trustee of The Yiu's Family Trust, the beneficiaries (after the death of the last to die of Mr. Yiu Ching On and Ms. Wong Kai Chun) of which include, among others, Mr. Yiu Kwok Ming, Tommy, Mr. Yiu Kwok Yung, (the younger brother of Mr. Yiu Kwok Ming, Tommy) and the issues of Mr. Yiu Kwok Ming, Tommy and Mr. Yiu Kwok Yung.

(c) HSBC International Trustee Limited holds 99.99% units in issue in The Yiu's Family Unit Trust in its capacity as the trustee of The Yiu's Family Trust.

HSBC International Trustee Limited is a wholly-owned subsidiary within the HSBC Group. Their interests in the shares of the Company duplicate with each other.

(d) The entire issued share capital of Happy Joy Limited and Cotton Row Limited are wholly-owned by Mr. Yiu Kwok Ming, Tommy, a director of the Company.

Interest in underlying shares

Name	**Number of underlying shares interested**	**Percentage of issued share capital at 31 December 2008**
Ms. Wong Kai Chun *(note a)*	7,042,000	1.8%

Note:

(a) Such share options are beneficially owned by Mr. Yiu Ching On, spouse of Ms. Wong Kai Chun.

CONNECTED TRANSACTIONS

During the year, the Group had the following connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules. The Independent Non-executive Directors have reviewed the connected transactions with the related parties set out in notes 27, 28, 29, 36 and 39 to the financial statements. In their opinion, these transactions entered into by the Group were:

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

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than terms available to or from independent third parties;

Other than those transactions described in notes 27, 28, 29, 36 and 39 to the financial statements, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
— the largest supplier	19.7%
— five largest suppliers combined	52.4%
Sales	
— the largest customer	58.3%
— five largest customers combined	71.6%

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

DIRECTORS' INTEREST IN COMPETING INTEREST

None of the directors or the substantial shareholders (as defined in the Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

None of the Directors of the Company is aware of information that would reasonably indicated that the Company is not, or was not throughout the accounting period, in compliance with the Code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. As confirmed by all directors after specific enquiry, all directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board confirmed that the Company 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 considered all of the independent non-executive directors to be independent throughout the year.

SUFFICIENCY OF PUBLIC FLOAT

The company has maintained a sufficient public float throughout the year.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, namely, Mr. Chan Kin Wah, Billy, Mr. Cheung Cho Yiu and Mr. Liang Jin An. Two meetings were held during the current financial year. The Audit Committee had reviewed the audited results of the Group for the year ended 31 December 2008.

AUDITORS

Horwath Hong Kong CPA Limited acted as auditors of the Company for the year ended 31 December 2006.

The financial statements for the years ended 31 December 2007 and 2008 were audited by Cachet Certified Public Accountants Limited. A resolution for the reappointment of Cachet Certified Public Accountants Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Yiu Ching On
Chairman

Hong Kong, 22 April 2009

CACHET
Cachet Certified Public Accountants Limited
德揚會計師事務所有限公司
13F Neich Tower, 128 Gloucester Road, Wanchai, Hong Kong

To the shareholders of **Ching Hing (Holdings) Limited**
(Incorporated in the Bermuda with limited liability)

We have audited the financial statements of Ching Hing (Holdings) Limited (the "Company") set out on pages 25 to 92, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these 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.

AUDITORS' RESPONSIBILITY

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the 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.

AUDITORS' RESPONSIBILITY *(CONTINUED)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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 financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2008 and of the loss and cash flows of the Group 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.

Cachet Certified Public Accountants Limited
Certified Public Accountants

Chan Yuk Tong
Practising Certificate Number P03723

Hong Kong
22 April 2009

CONSOLIDATED INCOME STATEMENT

For The Year Ended 31 December 2008
(Expressed in Hong Kong dollars)

	Notes	2008 $'000	2007 $'000 Restated
Continuing operations			
Revenue	4,5	**287,021**	257,532
Cost of sales		**(264,783)**	(219,788)
Gross profit		**22,238**	37,744
Other income	4	**1,020**	1,320
Fair value (loss)/gain on revaluation of investment properties		**(1,007)**	5,176
Distribution costs		**(16,971)**	(16,337)
Administrative expenses		**(18,081)**	(15,956)
Other operating expenses	6	**(7,783)**	(1,761)
Operating (loss)/profit	7	**(20,584)**	10,186
Finance costs	8	**(4,278)**	(3,068)
(Loss)/profit before tax		**(24,862)**	7,118
Tax	11	**(2,135)**	(1,230)
(Loss)/profit for the year from continuing operations		**(26,997)**	5,888
Discontinued operation			
Loss for the year from discontinued operation	13	**(16,315)**	(12,758)
Loss for the year		**(43,312)**	(6,870)
Attributable to:			
Equity holders of the Company	12	**(44,162)**	(9,154)
Minority interests		**850**	2,284
Loss for the year		**(43,312)**	(6,870)
(Loss)/earnings per share attributable to ordinary equity holders of the Company	14		
Basic			
— For loss for the year		**(11.49 cents)**	(2.62 cents)
— For (loss)/profit from continuing operations		**(7.25 cents)**	1.03 cents
Diluted			
— For loss for the year		**N/A**	N/A
— For (loss)/profit from continuing operations		**N/A**	0.99 cents

The accompanying notes on page 31 to 92 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

As At 31 December 2008
(Expressed in Hong Kong dollars)

	Notes	2008 $'000	2007 $'000
Non-current assets			
Property, plant and equipment	15	**3,460**	54,218
Prepaid lease payments	16	**—**	3,653
Investment properties	17	**57,802**	8,469
Available-for-sale investment	19	**590**	590
Deposit paid	20	**—**	2,000
		61,852	68,930
Current assets			
Inventories	21	**—**	21,787
Trade and bills receivables	22	**32,810**	47,365
Other receivables, prepayments and deposits	23	**1,237**	5,168
Prepaid lease payments	16	**—**	101
Bank deposits	24	**23,427**	37,694
Cash and bank balances	24	**14,698**	23,469
		72,172	135,584
Assets held for disposal	13	**15,444**	—
		87,616	135,584
Current liabilities			
Bank overdrafts, secured	25	**6,332**	3,171
Interest-bearing bank borrowings, secured	25	**11,776**	32,513
Trust receipt loans, secured	25	**9,503**	11,495
Trade and bills payables	26	**25,925**	48,039
Other payables and accruals		**11,020**	9,008
VAT and other tax payable		**27**	1,259
Due to a director	27	**1,200**	—
Due to a shareholder	28	**6,013**	6,213
Due to a related company	29	**733**	—
Finance lease payables	30	**308**	563
Tax payable		**2,879**	2,704
		75,716	114,965
Net current assets		**11,900**	20,619
Total assets less current liabilities		**73,752**	89,549
Non-current liabilities			
Due to a related company	29	**8,478**	—
Finance lease payables	30	**663**	1,128
		9,141	1,128
Net assets		**64,611**	88,421

	Notes	2008 $'000	2007 $'000
Equity			
Equity attributable to shareholders of the parent			
Share capital	*31*	**19,217**	19,217
Reserves	*32a*	**41,763**	66,423
		60,980	85,640
Minority interests		**3,631**	2,781
Total equity		**64,611**	88,421

The financial statements were approved and authorised for issue by the board of directors on 22 April 2009.

Yiu Ching On
Director

Yiu Kwok Ming, Tommy
Director

The accompanying notes on page 31 to 92 form part of these financial statements.

	Attributable to equity holders of the Company										
	Share capital $'000 (Note 31)	Share premium $'000 (Note 32(a))	Property revaluation reserves $'000	Statutory surplus reserve $'000 (Note 32(a))	Employee share-based reserves $'000	Capital reserves $'000 (Note 32(a))	Exchange reserves $'000	Accumulated losses $'000	Total $'000	Minority interests $'000	Total $'000
At 1 January 2007	16,017	51,574	18,006	7,611	38	52,694	8,337	(83,779)	70,498	494	70,992
Exchange difference arising from translation of financial statements of overseas subsidiaries	—	—	—	—	—	—	422	—	422	—	422
Capital contribution from minority interests	—	—	—	—	—	—	—	—	—	3	3
Surplus on revaluation	—	—	946	—	—	—	—	—	946	—	946
Equity settled share option arrangements	—	—	—	—	154	—	—	—	154	—	154
Loss for the year	—	—	—	—	—	—	—	(9,154)	(9,154)	2,284	(6,870)
Issue of shares	3,200	—	—	—	—	—	—	—	3,200	—	3,200
Premium of issue of shares	—	19,574	—	—	—	—	—	—	19,574	—	19,574
At 31 December 2007	19,217	71,148	18,952	7,611	192	52,694	8,759	(92,933)	85,640	2,781	88,421
Exchange difference arising from translation of financial statements of overseas subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**2,568**	**—**	**2,568**	**—**	**2,568**
Surplus on revaluation	**—**	**—**	**16,323**	**—**	**—**	**—**	**—**	**—**	**16,323**	**—**	**16,323**
Lapse of options granted	**—**	**—**	**—**	**—**	**(12)**	**—**	**—**	**12**	**—**	**—**	**—**
Equity settled share option arrangements	**—**	**—**	**—**	**—**	**611**	**—**	**—**	**—**	**611**	**—**	**611**
Loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(44,162)**	**(44,162)**	**850**	**(43,312)**
At 31 December 2008	**19,217**	**71,148**	**35,275**	**7,611**	**791**	**52,694**	**11,327**	**(137,083)**	**60,980**	**3,631**	**64,611**

The accompanying notes on page 31 to 92 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For The Year Ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Net cash (outflow)/inflow from operating activities	35a	**(11,873)**	3,411
Cash flows from investing activities			
Interest received		**886**	1,350
Proceeds from disposal of property, plant and equipment		**333**	—
Increase in bank deposits pledged		**(2,114)**	(1,257)
Payment to acquire property, plant and equipment		**(1,074)**	(814)
Increase in deposit paid		**(669)**	(2,000)
Net cash outflow from investing activities		**(2,638)**	(2,721)
Cash flows from financing activities			
Proceeds from new bank borrowings		**52**	33,043
Repayment of bank borrowings		**(21,606)**	(27,661)
Increase in due to a director		**1,200**	—
Decrease in due to a shareholder		**(200)**	—
Advances from a related company		**9,500**	—
Repayment to a related company		**(289)**	—
Contribution from a minority shareholder		**—**	3
Proceeds from placing of shares		**—**	22,774
Repayment of finance lease payables		**(720)**	(451)
Net cash (outflow)/inflow from financing activities		**(12,063)**	27,708
Net (decrease)/increase in cash and cash equivalents		**(26,574)**	28,398
Cash and cash equivalents at 1 January		**29,084**	251
Effect of foreign exchange rate changes		**253**	435
Cash and cash equivalents at 31 December		**2,763**	29,084
Analysis of balances of cash and cash equivalents:			
Cash and bank balances		**14,698**	23,469
Bank deposits excluding bank deposits pledged		**3,900**	20,281
Bank overdrafts, secured		**(6,332)**	(3,171)
Trust receipt loans repayable within three months		**(9,503)**	(11,495)
		2,763	29,084

The accompanying notes on page 31 to 92 form part of these financial statements.

BALANCE SHEET

As At 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Non-current assets			
Investments in subsidiaries	*18*	**61,221**	60,961
Current assets			
Other receivables, prepayments and deposits	*23*	**128**	345
Cash and bank balances		**46**	19,195
		174	19,540
Current liabilities			
Other payables and accruals		**619**	2,164
Due to a director	*27*	**200**	200
		819	2,364
Net current (liabilities)/assets		**(645)**	17,176
Net assets		**60,576**	78,137
Capital and reserves			
Share capital	*31*	**19,217**	19,217
Reserves	*32b*	**41,359**	58,920
Total equity		**60,576**	78,137

The financial statements were approved and authorised for issue by the board of directors on 22 April 2009.

Yiu Ching On
Director

Yiu Kwok Ming, Tommy
Director

The accompanying notes on page 31 to 92 form part of these financial statements.

1. CORPORATE INFORMATION

Ching Hing (Holdings) Limited (the "Company") and its subsidiaries (collectively, the "Group") were principally engaged in the sales of fabrics, provision of fabric processing services and sales of garments and other related accessories in Hong Kong, the United States and the Peoples' Republic of China (the "PRC") during the year. The Group has discontinued the provision of fabric processing services during the year.

The Company is a limited liability company incorporated in Bermuda and its registered office is located at Cannon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The principal place of the Company is located at 10th Floor, International Industrial Building, 501-503 Castle Peak Road, Kowloon, Hong Kong.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, which have been measured at fair value. Assets held for disposal are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 13. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of 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.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

(Expressed in Hong Kong dollars unless otherwise stated)

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

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

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets* *(continued)*

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed.

HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(c) HK(IFRIC)-Int 12 *Service Concession Arrangements*

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. As the Group currently has no such arrangements, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 14 *HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

(Expressed in Hong Kong dollars unless otherwise stated)

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied the following new and revised HKFRSs, that have been issued but are not yet effective in these financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32, HKAS 39 & HKFRS 7 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKAS 39 (Amendment)	Eligible hedge items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a subsidiary, Jointly, Controlled Entity or an Association[1]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 2 (Amendments)	Share-based Payment: Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 2	Members' Shares in Co-operative Entities and Similar Instruments[1]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[2]
HK(IFRIC) – Int 15	Agreements for the construction of Real Estate[1]
HK(IFRIC) – Int 16	Hedges of Net Investment in a Foreign Operation[4]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[5]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs which sets out 35 amendments to 20 HKFRSs*. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1. Effective for annual periods beginning on or after 1 January 2009
2. Effective for annual periods beginning on or after 1 July 2008
3. Effective for annual periods beginning on or after 1 July 2009
4. Effective for annual periods beginning on or after 1 October 2008
5 Effective for transfers of assets from customers received on or after 1 July 2009
* Improvements to HKFRSs contain amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) and HKAS 23 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties and assets held for disposal), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than investment properties and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for disposal or when it is part of a disposal group classified as held for disposal, it is not depreciated and is accounted with HKFRS 5, as further explained in the accounting policy for "Assets held for disposal". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment and depreciation *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Plant and machinery	10%
Furniture, fixtures and office equipment	20%
Motor Vehicles	30%
Leasehold improvements	5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Assets held for disposal

Assets are classified as held for disposal if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Assets (other than investment properties and financial assets) classified as held for disposal are measured at the lower of their carrying amounts and fair values less costs to sell.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading or these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition".

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

Available-for-sale financial assets *(continued)*

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimate is significant for that investment, or (b) the probabilities or the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets *(continued)*

Assets carried at amortised cost *(continued)*

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor, and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectable.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or when other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and bills payables, other payables and accruals, trust receipt loans, interest bearing bank borrowings, finance lease payables, bank overdrafts and amounts due to a shareholder, a director and a related company are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance cost" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial liabilities at fair value through profit or loss *(continued)*

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for a financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date, and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, director labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and exclude value added tax or other sales related taxes.

Revenue from the provision of fabric processing services is recognised on the completion of the process, which generally coincides with the time when goods are delivered to customers.

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Employee benefits

Pension obligations

The Group contributes to various defined contribution retirement schemes for its employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme costs charged to the consolidated income statement represent contributions payable by the Group to the schemes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Employee benefits *(continued)*

Pension obligations *(continued)*

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

Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Assessment of impairment of non-current assets

The Group tests annually whether non-current assets have suffered any impairment based on their value in use or their net selling price.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

Fair value of unlisted equity investments in subsidiaries

The unlisted equity investments have been assessed for impairment based on the financial information available for those investments. This assessment requires the Group to make estimates about expected future performance of the investments and hence they are subject to uncertainty. The unlisted equity investments have been partially impaired at 31 December 2008. Further details are included in note 18 to the financial statements.

Useful lives of property, plant and equipment

The management of the Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectibles and ageing analysis of accounts and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer.

Estimated fair value of financial assets

The estimation of fair value of financial assets required the Group to estimate the future market value expected to be recovered from the disposal of the financial assets and a suitable discount rate in order to calculate the present value.

Segment information

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash, and mainly exclude available-for-sale investment and certain property, plant and equipment. Segment liabilities primarily comprise operating liabilities. Capital expenditure mainly comprises additions to property, plant and equipment.

In respect of geographical segment reporting, sales are based in the country in which the customers are located. Total assets and capital expenditure are where the assets are located.

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the sales of fabrics, income from provision of fabric processing services and sale of garments and other related accessories.

An analysis of revenue, other income and gains is as follows:

	2008 $'000	2007 $'000 Restated
Revenue		
Sales of fabrics	**68,042**	87,243
Sales of garments and accessories	**218,979**	170,289
Attributable to continuing operations reported in the consolidated income statement	**287,021**	257,532
Income from fabric processing services provided attributable to a discontinued operation *(Note 13)*	**10,797**	45,455
	297,818	302,987
Other income and gains		
Continuing operations		
Interest income	**877**	1,209
Gain on disposal of property, plant and equipment	**22**	—
Gain on scrap sales	**—**	111
Others	**121**	—
	1,020	1,320
Discontinued operation		
Interest income	**9**	141
Gain on disposal of property, plant and equipment	**76**	—
Gain on scrap sales	**2,486**	60
	2,571	201
	3,591	1,521
Total revenue, income and gains	**301,409**	304,508

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

Primary reporting basis — business segments

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

Continuing operations

Sales of fabrics segment — sales of fabrics

Sales of garments and accessories segment — sales of garments and other related accessories

Discontinued operation

Fabric processing segment — provision of fabric processing services

Secondary reporting basis — geographical segments

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. The Group's three business segments are operated in four main geographical areas as follows:

Hong Kong — fabric processing and sales of fabrics
United States — sales of garments and accessories
The PRC — fabric processing and sales of fabrics
Other countries (principally Bangladesh, Macau, Indonesia, Taiwan and Sri Lanka) — sales of fabrics and sales of garments and accessories

5. SEGMENT INFORMATION *(CONTINUED)*

Primary reporting basis — business segments

	Year ended 31 December 2008				
	Continuing operations			Discontinued operation	
	Sales of fabrics $'000	Sales of garments and accessories $'000	Sub-total $'000	Fabric processing $'000	Total $'000
Revenue	68,042	218,979	287,021	10,797	297,818
Segment results	(23,598)	12,933	(10,665)	(15,985)	(26,650)
Unallocated revenue and costs			(9,919)	73	(9,846)
Operating loss			(20,584)	(15,912)	(36,496)
Finance costs			(4,278)	(797)	(5,075)
Loss before tax			(24,862)	(16,709)	(41,571)
Tax			(2,135)	394	(1,741)
Loss for the year			(26,997)	(16,315)	(43,312)
Segment assets	43,319	32,274	75,593	15,444	91,037
Unallocated assets					58,431
Total assets					149,468
Segment liabilities	52,084	23,240	75,324	—	75,324
Unallocated liabilities					9,533
Total liabilities					84,857
Capital expenditure	105	767	872	202	1,074
Depreciation and amortisation	827	234	1,061	4,362	5,423
Impairment loss recognised/ (reversed):					
Trade and bills receivables	1,150	764	1,914	(696)	1,218
Other receivables	640	—	640	—	640
Write off of trade and bills receivables	529	—	529	241	770
Write off of inventories	—	—	—	2,922	2,922
Loss on write off and disposal of property, plant and equipment	—	—	—	4,212	4,212

5. SEGMENT INFORMATION *(CONTINUED)*

Primary reporting basis — business segments *(continued)*

	Year ended 31 December 2007				
	Continuing operations			Discontinued operation	
	Sales of fabrics *$'000*	Sales of garments and accessories *$'000*	Sub-total *$'000*	Fabric processing *$'000*	Total *$'000*
	Restated	Restated	Restated	Restated	Restated
Revenue	87,243	170,289	257,532	45,455	302,987
Segment results	(2,517)	11,841	9,324	(10,694)	(1,370)
Unallocated revenue and costs			862	(7)	855
Operating profit/(loss)			10,186	(10,701)	(515)
Finance costs			(3,068)	(1,458)	(4,526)
Profit/(loss) before tax			7,118	(12,159)	(5,041)
Tax			(1,230)	(599)	(1,829)
Profit/(loss) for the year			5,888	(12,758)	(6,870)
Segment assets	64,365	22,765	87,130	86,960	174,090
Unallocated assets					30,424
Total assets					204,514
Segment liabilities	58,757	10,209	68,966	43,055	112,021
Unallocated liabilities					4,072
Total liabilities					116,093
Capital expenditure	1,321	78	1,399	765	2,164
Depreciation and amortisation	1,432	181	1,613	6,900	8,513
Impairment loss recognised:					
Trade and bills receivables	696	—	696	406	1,102
Other receivables	638	—	638	—	638
Write off/(back) of trade and bills receivables	68	—	68	(29)	39

5. SEGMENT INFORMATION *(CONTINUED)*

Secondary reporting basis — geographical segments

	For the year ended 31 December 2008				
	Hong Kong *$'000*	**United States** *$'000*	**The PRC** *$'000*	**Others** *$'000*	**Total** *$'000*
Revenue					
Sales to external customers	**60,210**	**190,602**	**12,962**	**34,044**	**297,818**
Revenue from discontinued operation	**(2,316)**	**—**	**(8,481)**	**—**	**(10,797)**
Revenue from continuing operations	**57,894**	**190,602**	**4,481**	**34,044**	**287,021**
Segment assets	**54,778**	**13,401**	**80,092**	**1,197**	**149,468**
Capital expenditure	**865**	**—**	**209**	**—**	**1,074**

	For the year ended 31 December 2007				
	Hong Kong *$'000*	United States *$'000*	The PRC *$'000*	Others *$'000*	Total *$'000*
	Restated	Restated	Restated	Restated	Restated
Revenue					
Sales to external customers	77,278	165,355	36,410	23,944	302,987
Revenue from discontinued operation	(25,976)	—	(19,479)	—	(45,455)
Revenue from continuing operations	51,302	165,355	16,931	23,944	257,532
Segment assets	95,409	3,482	102,616	3,007	204,514
Capital expenditure	1,810	—	354	—	2,164

6. OTHER OPERATING EXPENSES

	Continuing operations		**Discontinued operation** *(Note 13)*	
	2008	2007	**2008**	2007
	$'000	*$'000*	***$'000***	*$'000*
		Restated		Restated
Impairment losses recognised/ (reversed) of trade and bills receivable	**1,914**	696	**(696)**	406
Impairment losses recognised of other receivables	**640**	638	**—**	—
Claims expense	**1,170**	—	**—**	—
Write off/(back) of trade and bills receivables	**529**	68	**241**	(29)
Write off of deposit paid *(note 20)*	**2,669**	—	**—**	—
Share-based payment	**611**	154	**—**	—
Compensation to employees on termination of employment	**—**	—	**3,026**	—
Loss on write off and disposal of property, plant and equipment	**—**	—	**4,212**	—
Exchange loss	**213**	167	**87**	118
Others	**37**	38	**43**	29
	7,783	1,761	**6,913**	524

7. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging and crediting the following:

	2008 $'000	2007 $'000 Restated
Charging:		
Auditors' remuneration:		
Current year	**340**	350
Under-provision in previous year	**—**	21
	340	371
Cost of inventories sold:		
Continuing operations	**264,783**	219,788
Discontinued operation*	**19,437**	46,698
	284,220	266,486
Depreciation:		
Owned assets	**4,733**	7,828
Assets under finance lease	**690**	587
	5,423	8,415
Amortisation of prepaid lease payments	**—**	98
Loss on write off and disposal of property, plant and equipment	**4,212**	—
Operating lease rentals in respect of land and buildings	**1,191**	1,089
Staff costs (excluding directors' remuneration *(note 10)*):		
Salaries and allowances	**12,772**	21,641
Retirement benefit costs	**559**	424
Equity settled share option expenses	**15**	26
	13,346	22,091
and after crediting:		
Write back of provision for impairment of inventories	**—**	56

* Included in the cost of inventories sold in respect of discontinued operation was write off of inventories amounting to $2,922,000 (2007: Nil).

8. FINANCE COSTS

	Continuing operations		**Discontinued operation** *(Note 13)*	
	2008	2007	**2008**	2007
	$'000	*$'000*	***$'000***	*$'000*
		Restated		Restated
Bank charges	**1,941**	1,049	**5**	57
Interest on bank loans and overdraft	**910**	1,132	**762**	872
Interest on other loans	**1,297**	833	**28**	509
Finance lease charges	**130**	54	**2**	20
	4,278	3,068	**797**	1,458

9. RETIREMENT BENEFIT COSTS

The Group contributes to defined contribution retirement schemes (including the Occupational Retirement Scheme ("ORSO Scheme") and Mandatory Provident Fund Scheme ("MPF Scheme")) which are available to all full time employees in Hong Kong and employees who are registered residents of Nantou Town, Zhongshan City, the PRC. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries.

The Group's contributions to the ORSO Scheme available to certain Hong Kong employees are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

For the MPF Scheme, the Group and its Hong Kong employees each make monthly contribution at 5% of the employee's relevant income, with the maximum contribution by each of the Group and the employees limited to $1,000 per month, as defined in the Hong Kong Mandatory Provident Fund Schemes Ordinance. Such contributions are fully and immediately vested in the employees as accrued benefits once they are paid.

10. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2008	2007
	$'000	$'000
Fees	**144**	60
Other emoluments:		
Salaries, allowances and benefits in kind	**3,456**	3,525
Equity settled share option expenses	**596**	128
MPF contributions	**114**	114
	4,166	3,767
	4,310	3,827

(a) The emoluments paid or payable to each of directors of the Company during the year are as follows:

For the year ended 31 December 2008

Name of director	Fees $'000	Salary, allowances and benefit in kind $'000	Discretionary bonus $'000	MPF contributions $'000	Equity settled share option expenses $'000	Total $'000
Executive directors						
Mr. Yiu Ching On	—	1,040	—	48	266	1,354
Mr. Yiu Kwok Ming, Tommy	—	910	—	42	266	1,218
Mr. Leung Kwok Ip	—	676	—	12	32	720
Mr. Wong Wai Man	—	830	—	12	32	874
	—	3,456	—	114	596	4,166
Independent non-executive directors						
Mr. Cheung Cho Yiu	48	—	—	—	—	48
Mr. Chan Kin Wah, Billy	48	—	—	—	—	48
Mr. Liang Jin An	48	—	—	—	—	48
	144	—	—	—	—	144
Total	144	3,456	—	114	596	4,310

10. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION *(CONTINUED)*

(a) *(continued)*

For the year ended 31 December 2007

Name of director	Fees *$'000*	Salary, allowances and benefit in kind *$'000*	Discretionary bonus *$'000*	MPF contributions *$'000*	Equity settled share option expenses *$'000*	Total *$'000*
Executive directors						
Mr. Yiu Ching On	—	1,040	—	48	32	1,120
Mr. Yiu Kwok Ming, Tommy	—	910	—	42	32	984
Mr. Leung Kwok Ip	—	681	—	12	32	725
Mr. Wong Wai Man	—	894	—	12	32	938
Ms. Wong Kai Chun (resigned on 7 August 2007)	—	—	—	—	—	—
	—	3,525	—	114	128	3,767
Independent non-executive directors						
Mr. Cheung Cho Yiu (appointed on 7 August 2007)	20	—	—	—	—	20
Mr. Chan Kin Wah, Billy (appointed on 25 July 2007)	20	—	—	—	—	20
Mr. Liang Jin An (appointed on 25 July 2007)	20	—	—	—	—	20
Mr. Cheung Wing Yui (resigned on 25 July 2007)	—	—	—	—	—	—
Mr. Wong Shui Hoi, Peter (resigned on 25 July 2007)	—	—	—	—	—	—
Mr. Lo Wai Kon (resigned on 7 August 2007)	—	—	—	—	—	—
	60	—	—	—	—	60
Total	60	3,525	—	114	128	3,827

During the year, there were no other emoluments payable to the independent non-executive directors (2007: Nil).

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office (2007: Nil). There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

10. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION *(CONTINUED)*

(b) Five highest paid individuals

The five individuals whose remuneration were the highest in the Group included four (2007: four) executive directors. Details of the remuneration of the remaining one (2007: one) highest paid employee during the year are as follows:

	2008 **$'000**	2007 *$'000*
Salaries and allowances	**740**	597
Discretionary bonuses	**—**	—
Contributions to pension schemes	**12**	12
	752	609

The remuneration of the above employees fell within the following band:

	2008 ***Number***	2007 *Number*
$Nil — $1,000,000	**1**	1

During the year, no amount (2007: Nil) has been paid by the Group to any of the five highest paid individuals as compensation for loss of office. No payments have been paid by the Group to the five highest paid individuals as an inducement or upon joining the Group.

11. TAX

(a) The amount of tax charge/(credit) to the consolidated income statement represents:

	Continuing operations		**Discontinued operation** *(Note 13)*	
	2008	2007	**2008**	2007
	$'000	*$'000*	***$'000***	*$'000*
		Restated		Restated
Current tax — Hong Kong				
Provision for the year	**1,415**	785	**—**	—
Tax concession in respect of 2007/08	**25**	—	**—**	—
Underprovision in respect of prior years	**791**	—	**—**	—
	2,231	785	**—**	—
Current tax — Overseas				
Provision for the year	**15**	445	**—**	599
Overprovision in respect of prior years	**(111)**	—	**(394)**	—
	(96)	445	**(394)**	599
	2,135	1,230	**(394)**	599

(i) Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

(ii) Tax on overseas profits is calculated on the estimated assessable profit for the year at the rates of tax prevailing in the countries in which the Group operates.

(iii) On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which is effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to domestic companies from 1 January 2008 has decreased from 33% to 25% on 1 January 2008 and thereafter.

As certain of the Company's subsidiaries are established and operated in Zhongshan City, Guangdong Province, the PRC, these subsidiaries are previously subject to a preferential tax rate of 27% on their taxable income. Under the New CIT Law, these subsidiaries are subject to the standardised tax rate of 25% on their taxable income.

11. TAX *(CONTINUED)*

(b) Tax charge/(credit) for the year can be reconciled to the accounting loss as follows:

	Continuing operations		Discontinued operation *(Note 13)*	
	2008 **$'000**	2007 $'000	**2008** **$'000**	2007 $'000
		Restated		Restated
(Loss)/profit before tax	**(24,862)**	7,118	**(16,709)**	(12,159)
Tax (credit)/charge calculated at the average tax rate	**(4,812)**	1,154	**(4,105)**	(2,253)
Tax effect of expenses not deductible	**2,300**	2,510	**3,967**	3,205
Tax effect of income not taxable	**(374)**	(2,278)	**(2)**	(1,891)
Tax effect of temporary difference on depreciable assets not recognised	**(36)**	—	**2**	—
Utilisation of previously unrecognised tax losses	**—**	(156)	**—**	—
Tax loss not recognised	**2,499**	—	**55**	1,538
Tax concession in respect of 2007/08	**(25)**	—	**—**	—
Under/(over)-provision in respect of prior years	**680**	—	**(394)**	—
Effect of change in tax rate not recognised	**1,903**	—	**83**	—
Tax charge/(credit) at the Group's effective tax rate	**2,135**	1,230	**(394)**	599

12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Loss attributable to equity holders of the Company included a loss of $18,172,000 (2007: $12,147,000) which has been dealt with in the financial statements of the Company.

13. DISCONTINUED OPERATION AND ASSETS HELD FOR DISPOSAL

On 4 August 2008, the Company announced the decision of its board of directors to terminate the operation of Zhongshan Ching Hing Weaving Factory Limited ("Zhongshan Ching Hing"). Zhongshan Ching Hing engages in sale of fabric and fabric processing where the fabric processing is a separate business segment and is part of the Mainland China and Hong Kong operations. The Group has decided to cease its fabric processing business and accordingly, the fabric processing operation has been reclassified as a discontinued operation with the comparative income statement information being reclassified as appropriate. Since Zhongshan Ching Hing is expected not to resume the fabric processing operation in future, all plant and machineries of Zhongshan Ching Hing will be sold out when interested buyers, if any, have been identified. As at 31 December 2008, the Group is still in the process of seeking for interested buyer(s). Accordingly, the said plant and machineries have been classified as assets held for disposal as at 31 December 2008.

The results of the fabric processing operation for the year are presented below:

	2008	2007
	$'000	*$'000*
		Restated
Revenue — income from fabric processing service provided	**10,797**	45,455
Cost of sales	**(19,437)**	(46,698)
Other income	**2,571**	201
Distribution costs	**(554)**	(3,342)
Administrative expenses	**(2,376)**	(5,793)
Other operating expenses	**(6,913)**	(524)
Finance costs	**(797)**	(1,458)
Loss before tax from the discontinued operation	**(16,709)**	(12,159)
Tax	**394**	(599)
Loss for the year from the discontinued operation	**(16,315)**	(12,758)

13. DISCONTINUED OPERATION AND ASSETS HELD FOR DISPOSAL *(CONTINUED)*

	2008	2007
		Restated
Loss per share:		
Basic, from the discontinued operation	**4.24 cents**	3.65 cents
Diluted, from the discontinued operation	**N/A**	N/A

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	2008	2007
		Restated
Loss attributable to ordinary equity holders of the Company from the discontinued operation	**$16,315,000**	$12,758,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**384,349,468**	349,105,632
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**N/A**	N/A

The major classes of assets of Zhongshan Ching Hing classified as assets held for disposal as at 31 December are as follows:

	2008 *$'000*
Plant and equipment	**15,444**

14. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share amounts is based on the loss for the year attributable to equity holders of the Company, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the additional shares issued during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

14. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY *(CONTINUED)*

Diluted loss per share amounts for the years ended 31 December 2008 and 2007 have not been disclosed, as there is an anti-dilutive effect on the basic loss per share for these years.

The calculations of basic earnings/(loss) per share are based on:

	2008	*2007*
	$'000	*$'000*
		Restated
(Loss)/profit		
(Loss)/profit attributable to ordinary equity holders of the Company, used in the basic loss per share calculation:		
From continuing operations	**(27,847)**	3,604
From discontinued operation	**(16,315)**	(12,758)
Loss attributable to ordinary equity holders of the Company	**(44,162)**	(9,154)
Attributable to:		
Continuing operations	**(7.25 cents)**	1.03 cents
Discontinued operation	**(4.24 cents)**	(3.65 cents)
	(11.49 cents)	(2.62 cents)

	Number of shares	
	2008	2007
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**384,349,468**	349,105,632

15. PROPERTY, PLANT AND EQUIPMENT

	Group							
	Construction in progress $'000	Buildings outside Hong Kong $'000	Buildings in Hong Kong $'000	Leasehold improve-ments $'000	Plant and machinery $'000	Furniture, fixtures and office equipment $'000	Motor vehicles $'000	Total $'000
31 December 2008								
At 31 December 2007 and at 1 January 2008:								
Cost or valuation	—	30,161	454	9,233	127,505	6,276	6,046	179,675
Accumulated depreciation	—	(3,199)	(142)	(3,872)	(108,512)	(5,922)	(3,810)	(125,457)
Net carrying amount	—	26,962	312	5,361	18,993	354	2,236	54,218
At 1 January 2008, net of accumulated depreciation	—	26,962	312	5,361	18,993	354	2,236	54,218
Additions	68	—	—	—	134	112	760	1,074
Transfer to plant and machinery	(68)	—	—	—	68	—	—	—
Disposal	—	—	—	(2,459)	(1,738)	(39)	(211)	(4,447)
Transfer to assets held for disposal *(note 13)*	—	—	—	—	(15,444)	—	—	(15,444)
Depreciation provided during the year	—	(978)	(11)	(256)	(3,145)	(119)	(914)	(5,423)
Revaluation	—	(13,708)	—	—	—	—	—	(13,708)
Exchange realignment	—	1,767	—	150	1,132	2	14	3,065
Transfer to investment properties	—	(14,043)	—	(1,832)	—	—	—	(15,875)
At 31 December 2008, net of accumulated depreciation	—	—	301	964	—	310	1,885	3,460
At 31 December 2008:								
Cost or valuation	—	—	454	1,727	—	4,107	3,780	10,068
Accumulated depreciation	—	—	(153)	(763)	—	(3,797)	(1,895)	(6,608)
Net carrying amount	—	—	301	964	—	310	1,885	3,460
Analysis of cost or valuation:								
At cost	—	—	454	1,727	—	4,107	3,780	10,068
At valuation	—	—	—	—	—	—	—	—
	—	—	454	1,727	—	4,107	3,780	10,068

15. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

	Group							
	Construction in progress *$'000*	Buildings outside Hong Kong *$'000*	Buildings in Hong Kong *$'000*	Leasehold improve-ments *$'000*	Plant and machinery *$'000*	Furniture, fixtures and office equipment *$'000*	Motor vehicles *$'000*	Total *$'000*
31 December 2007								
At 31 December 2006 and at 1 January 2007:								
Cost or valuation	360	28,536	454	8,847	118,477	5,977	3,823	166,474
Accumulated depreciation	—	(1,505)	(133)	(3,305)	(95,853)	(5,407)	(2,903)	(109,106)
Net carrying amount	360	27,031	321	5,542	22,624	570	920	57,368
At 1 January 2007, net of accumulated depreciation	360	27,031	321	5,542	22,624	570	920	57,368
Transfer to plant and machinery	(386)	—	—	—	386	—	—	—
Additions	—	—	—	—	—	236	1,928	2,164
Depreciation provided during the year	—	(1,536)	(9)	(358)	(5,711)	(112)	(689)	(8,415)
Revaluation	—	394	—	—	—	—	—	394
Exchange realignment	26	2,003	—	177	1,694	(340)	77	3,637
Transfer to investment properties	—	(930)	—	—	—	—	—	(930)
At 31 December 2007, net of accumulated depreciation	—	26,962	312	5,361	18,993	354	2,236	54,218
At 31 December 2007:								
Cost or valuation	—	30,161	454	9,233	127,505	6,276	6,046	179,675
Accumulated depreciation	—	(3,199)	(142)	(3,872)	(108,512)	(5,922)	(3,810)	(125,457)
Net carrying amount	—	26,962	312	5,361	18,993	354	2,236	54,218
Analysis of cost or valuation:								
At cost	—	—	454	9,233	127,505	6,276	6,046	149,514
At 31 December 2005 valuation	—	30,161	—	—	—	—	—	30,161
	—	30,161	454	9,233	127,505	6,276	6,046	179,675

(a) The Group's interests in buildings are under lease terms of between 10 to 50 years.

15. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(b) The carrying amount of the buildings outside Hong Kong would have amounted to $Nil (2007: $9,889,000) had they been stated at historical cost less accumulated depreciation.

(c) At 31 December 2008, the net book value of property, plant and equipment pledged as securities for the Group's bank loans amounted to $Nil (2007: $26,962,000).

(d) At 31 December 2008, the net book value of property, plant and equipment held by the Group under finance leases amounted to $1,199,000 (2007: $1,980,000).

16. PREPAID LEASE PAYMENTS

Prepaid lease payments of the Group represent prepaid operating lease payments on land use rights in the PRC held on leases of between 50 to 64 years and their net book values are analysed as follows:

	Group *$'000*
Cost:	
At 1 January 2007	6,429
Revaluation	324
Exchange adjustment	469
Transfer to investment properties	(2,149)
At 31 December 2007	5,073
Revaluation	28,631
Exchange adjustment	313
Transfer to investment properties	(34,017)
At 31 December 2008	—
Accumulated amortisation:	
At 1 January 2007	1,347
Charge for the year	98
Revaluation	(228)
Exchange adjustment	102
At 31 December 2007	1,319
Revaluation	(1,400)
Exchange adjustment	81
At 31 December 2008	—
Net book value:	
At 31 December 2008	—
At 31 December 2007	3,754

16. PREPAID LEASE PAYMENTS *(CONTINUED)*

	Group	
	2008	2007
	$'000	*$'000*
Prepaid lease payments classified as:		
Current assets	—	101
Non-current assets	—	3,653
Net book value as at 31 December	—	3,754

Prepaid lease prepayments on land use rights were pledged as securities for the Group's bank loans in the previous year.

17. INVESTMENT PROPERTIES

	Group	
	2008	2007
	$'000	*$'000*
Carrying amount at 1 January	**8,469**	—
Transfer from:		
Buildings outside Hong Kong	**14,043**	930
Leasehold improvement	**1,832**	—
Prepaid lease payments	**34,017**	2,149
Net (loss)/gain from fair value adjustment	**(1,007)**	5,176
Exchange adjustment	**448**	214
Carrying amount at 31 December	**57,802**	8,469

The Group's investment properties are situated outside Hong Kong and are held under the following lease terms:

	2008	2007
	$'000	*$'000*
Long term leases	**52,821**	7,475
Medium term leases	**4,981**	994
	57,802	8,469

The Group's investment properties were revalued on 31 December 2008 by Asset Appraisal Limited, independent professionally qualified valuers, at $57,802,000 on an open market, existing use basis.

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2008	2007
	$'000	*$'000*
Unlisted shares, at cost	**126,626**	126,626
Less: Impairment	**(100,000)**	(84,000)
	26,626	42,626
Due from subsidiaries	**72,604**	56,344
Less: Impairment	**(38,000)**	(38,000)
	34,604	18,344
Due to a subsidiary	**(9)**	(9)
	61,221	60,961

The amounts due from subsidiaries are unsecured, non-interest bearing and in substance represents the Company's investments in subsidiaries in the form of quasi-equity loans.

The amount due to the subsidiary is unsecured, non-interest bearing and no fixed terms of repayment.

(Expressed in Hong Kong dollars unless otherwise stated)

18. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

At 31 December 2008, the Company held interests in the following subsidiaries:

Name	Country/place of incorporation/ establishment	Principal activities and place of operation	Paid up capital	Interest held
Held directly:				
Ching Hing (BVI) Limited*	The British Virgins Islands	Investment holding in Hong Kong	$287,286	100%
Held indirectly:				
Ching Hing Weaving Dyeing & Printing Factory Limited	Hong Kong	Provision of fabric processing services and sale of fabrics in Hong Kong	$2 (ordinary shares) and $55,000,000 (non-voting deferred shares)	100%
Zhongshan Ching Hing Weaving Factory Limited*#	The PRC	Provision of fabric processing services and sale of fabrics in the PRC	US$9,500,000	100%
Ching On Textiles Limited	Hong Kong	Sale of fabrics in Hong Kong	$1,010,001	100%
Ching Fong Textiles Co. Ltd.	Hong Kong	Sale of fabrics in Hong Kong	$10,000	65%
Yiutung Fashion Co. Ltd.	Hong Kong	Investment holding	$15,001	100%
Zhongshan Yiutung Clothing Manufacturing Co. Limited*#	The PRC	Dormant	US$500,000	100%
South Field (Pacific) Limited	Hong Kong	Sale of garments and accessories	$1,000,001	56%
Huge Victory Management Limited*	Samoa	Property holding	US$3	100%

18. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Name	Country/place of incorporation/ establishment	Principal activities and place of operation	Paid up capital	Interest held
Held indirectly: *(continued)*				
Glamour International Limited*	Samoa	Investment holding	US$3	100%
Alpha Textile International Limited	Hong Kong	Sale of fabrics	$10,000	65%
Ching Hing Weaving (International) Limited	Hong Kong	Investment holding	$2	100%
Ching Hing (Holdings) Investment Limited	Hong Kong	Not yet commenced business	$10,000	100%
On Hing Weaving Factory Limited	Hong Kong	Dormant	$10,000	100%
Onlink Textiles Limited	Hong Kong	Sale of fabrics and garments	$10,000	70%
Calvin Textiles Limited	Hong Kong	Not yet commenced business	$10,000	100%
Mark Joy International Limited	Hong Kong	Dormant	$10	56%
Shenzhen Jun Di Fashion Design Company Limited*#	The PRC	Dormant	$8,350,000	56%
Zhongshan City Hong An Clothing Trading Company Limited*#	The PRC	Sale of fabrics	RMB660,000	100%

* Cachet Certified Public Accountants Limited were not the statutory auditors.

\# The English names of these subsidiaries are directly translated from their Chinese names as no English names have been registered.

19. AVAILABLE-FOR-SALE INVESTMENT

	Group	
	2008	2007
	$'000	*$'000*
Club membership	**590**	590

20. DEPOSIT PAID

Deposit paid of $2,000,000 as at 31 December 2007 was related to a railway catering project with reference to a joint venture agreement entered with a PRC partner on 4 December 2007. Pursuant to the joint venture agreement, the Group should contribute a total of US$10,000,000 by instalment.

According to the joint venture agreement, the PRC partner should transfer a batch of railway catering rights to the joint venture. However, the PRC partner has failed to transfer the batch of railway catering rights to the joint venture. To safeguard the Group's interests, the Board has decided not to contribute any sum to the joint venture as registered capital in view of the material breach of the joint venture agreement by the PRC partner. In this connection, the Group has issued a letter of termination to the PRC partner and has already made full provision for the initial earnest money of $2,000,000 deposit paid together with the legal costs and other costs capitalised in the amount of $669,000 to the PRC partner pursuant to the joint venture agreement.

21. INVENTORIES

	Group	
	2008	2007
	$'000	*$'000*
Raw materials	**—**	15,019
Work in progress	**—**	1,592
Finished goods	**—**	5,176
	—	21,787

The Group did not have inventories at 31 December 2008. As at 31 December 2007, obsolete inventories of approximately $1,080,000 had been fully provided for. Other inventories amounting to approximately $2,194,000 were stated at net realisable value.

22. TRADE AND BILLS RECEIVABLES

	Group	
	2008	2007
	$'000	*$'000*
Trade and bills receivables	**39,987**	53,324
Impairment	**(7,177)**	(5,959)
	32,810	47,365

Sale of fabrics and processing of fabrics are with credit terms of 45 days whereas the sales from trading of garments and accessories are with credit terms of 120 days. The Group has a defined credit policy and it varies with the financial strength of individual customers. Sales from trading of garments and accessories are mostly covered by letter of credits. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk trade receivables are non-interest-bearing.

22. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

Details of the aging analysis of trade and bills receivables, based on the invoice date and net of provision, were as follows:

	Group	
	2008	2007
	$'000	*$'000*
Current	**20,341**	15,716
31-60 days	**8,042**	6,529
61-90 days	**1,427**	1,047
Over 90 days	**3,000**	24,073
	32,810	47,365

At the balance sheet date, the fair values of trade and bills receivables approximate to the carrying amounts.

The movements in provision for impairment of trade and bills receivables are as follows:

	Group	
	2008	2007
	$'000	*$'000*
At 1 January	**5,959**	4,857
Impairment losses recognised	**1,218**	1,102
At 31 December	**7,177**	5,959

The aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	Group	
	2008	2007
	$'000	*$'000*
Neither past due nor impaired	**18,265**	16,188
Less than 1 month past due	**7,394**	14,427
1 to 3 months past due	**3,862**	8,767
Over 3 months past due	**3,289**	7,983
	32,810	47,365

22. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, and the directors have performed an assessment, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

23. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Group		Company	
	2008	2007	**2008**	2007
	$'000	*$'000*	***$'000***	*$'000*
Other receivables	**1,398**	4,632	**46**	200
Impairment	**(1,278)**	(638)	**(1)**	—
	120	3,994	**45**	200
Prepayments and deposits	**1,117**	1,174	**83**	145
	1,237	5,168	**128**	345

24. BANK DEPOSITS, CASH AND BANK BALANCES - GROUP

At 31 December 2008, approximately $2,318,000 (2007: $4,921,000) of the Group's cash and bank balances was denominated in Renminbi and kept in the PRC. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

At 31 December 2008, bank deposits of approximately $19,527,000 (2007: $17,413,000) were pledged to banks to secure banking facilities of the Group *(note 36)*.

25. BANK BORROWINGS (SECURED)

	Group	
	2008	2007
	$'000	*$'000*
Bank overdrafts, secured	**6,332**	3,171
Interest-bearing bank borrowings, secured	**11,776**	32,513
Trust receipt loans, secured	**9,503**	11,495
Total bank borrowings — repayable within one year	**27,611**	47,179

Bank borrowings bore annual interest ranging from 3.25% to 8.5% (2007: from 5.85% to 10%).

Bank loans of approximately $8,000,000 (2007: $16,019,000) at fixed interest rates expose the Group to fair value interest rate risk. Other bank borrowings of approximately $19,611,000 (2007: $31,160,000) at floating rates expose the Group to cash flow interest rate risk.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

As at 31 December 2008	**Hong Kong dollar**	**United States dollar**	**Renminbi**	**Total**
	$'000	***$'000***	***$'000***	***$'000***
Bank overdrafts, secured	**6,332**	**—**	**—**	**6,332**
Interest-bearing bank borrowings, secured	**8,000**	**3,776**	**—**	**11,776**
Trust receipt loans, secured	**—**	**9,503**	**—**	**9,503**
	14,332	**13,279**	**—**	**27,611**

As at 31 December 2007	Hong Kong dollar	United States dollar	Renminbi	Total
	$'000	*$'000*	*$'000*	*$'000*
Bank overdrafts, secured	3,171	—	—	3,171
Interest-bearing bank borrowings, secured	16,494	—	16,019	32,513
Trust receipt loans, secured	—	11,495	—	11,495
	19,665	11,495	16,019	47,179

26. TRADE AND BILLS PAYABLES

Details of the aging analysis of trade and bills payables, based on the invoice date, were as follows:

	Group	
	2008	2007
	$'000	$'000
Current	**9,745**	19,002
31-60 days	**5,650**	13,271
61-90 days	**1,437**	2,170
Over 90 days	**9,093**	13,596
	25,925	48,039

27. DUE TO A DIRECTOR

The amount due to a director is unsecured, interest free and no fixed terms of repayment.

28. DUE TO A SHAREHOLDER

The amount due to a shareholder is unsecured, interest bearing at 4.5% p.a. to 6.25% p.a. (2007: 6.75% p.a to 7.5% p.a) and has no fixed terms of repayment.

29. DUE TO A RELATED COMPANY

	Group	
	2008	2007
	$'000	$'000
Amount due to a related company repayable:		
Within one year	**733**	—
In the second year	**779**	—
In the third to fifth years inclusive	**7,699**	—
	9,211	—
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(733)**	—
Amount due for settlement after 12 months	**8,478**	—

The amount due to the related company controlled by a director of the Company is unsecured, interest bearing at 1% over Hong Kong prime rate and is repayable by 120 monthly instalments commencing on 18 August 2008.

30. FINANCE LEASE PAYABLES

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Amounts payable under finance lease:				
Within one year	**363**	658	**308**	563
In the second year	**332**	434	**279**	359
In the third to fifth years inclusive	**461**	933	**384**	769
Total minimum finance lease payments	**1,156**	2,025	**971**	1,691
Less: Future finance charges	**(185)**	(334)		
Present value of lease obligations	**971**	1,691		
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(308)**	(563)		
Amount due for settlement after 12 months	**663**	1,128		

It is the Group's policy to lease certain of its motor vehicles under finance lease. The average lease term is 2 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

31. SHARE CAPITAL

	Authorised ordinary shares of $0.05 each	
	No. of shares	*$'000*
At 1 January 2007	1,000,000,000	50,000
Shares created	4,000,000,000	200,000
At 31 December 2007 and 31 December 2008	5,000,000,000	250,000

	Issued and fully paid ordinary shares of $0.05 each	
	No. of shares	*$'000*
At 1 January 2007	320,349,468	16,017
Shares issued	64,000,000	3,200
At 31 December 2007 and 31 December 2008	384,349,468	19,217

On 12 July 2007, 64,000,000 shares were placed and allotted to independent investors at $0.36 per share. The proceeds of about $23,000,000 was used as general working capital of the Company.

On 12 December 2007, the authorised share capital was increased from $50,000,000 divided into 1,000,000,000 shares to $250,000,000 divided into 5,000,000,000 shares by the creation of 4,000,000,000 new shares.

32. RESERVES

(a) Group

(i) Share premium

The share premium account is available for distribution to shareholders under the Companies Act 1981 of Bermuda (as amended) and no distribution may be paid to shareholders out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

(ii) Statutory surplus reserve

In accordance with the PRC Companies Law, the Company's subsidiaries in the PRC were required to transfer 10% of their profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to the statutory surplus reserve (until such reserve reaches 50% of the registered capital of the respective companies). The statutory surplus reserve is non-distributable. According to the relevant PRC regulations, statutory surplus reserve can be used to make up losses or to increase share capital. Except for the reduction of losses incurred, other usage should not result in the statutory surplus reserve falling below 25% of the registered capital.

(iii) Capital reserves

Capital reserves represent the amount of a subsidiary's share capital converted into non-voting deferred shares in pursuant to the Group reorganisation in 1999 in preparation for the listing of the Company's shares on the Stock Exchange.

32. RESERVES *(CONTINUED)*

(b) Company

	Share premium $'000 (Note 32a(i))	Contributed surplus $'000	Employee share-based reserves $'000	Accumulated losses $'000	Total $'000
At 1 January 2007	51,574	123,754	—	(124,027)	51,301
Issue of shares	19,574	—	—	—	19,574
Equity settled share-based transactions	—	—	192	—	192
Loss for the year	—	—	—	(12,147)	(12,147)
At 31 December 2007	71,148	123,754	192	(136,174)	58,920
Lapse of share options granted	—	—	(12)	12	—
Equity settled share-based transactions	—	—	611	—	611
Loss for the year	—	—	—	(18,172)	(18,172)
At 31 December 2008	71,148	123,754	791	(154,334)	41,359

Contributed surplus

The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company and the nominal value of the shares issued by the Company at the time of the Group reorganisation. Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (a) it is, or would after the payment, be unable to pay its liabilities as they become due; or (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium financial statements.

33. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

The Company has a share option scheme ("2002 Share Option Scheme") which was adopted on 27 May 2002. For the better development of the Group, it is important that the Group is able to recruit, retain and motivate high caliber and good quality employees and officers to serve the Group on a long term basis as well as to maintain good relationship with its suppliers, customers and professional advisers. The Group believes that having a share option scheme in place is one of the most attractive means to attract and retain those persons to contribute to the continuous development of the Group.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of adoption of the 2002 Share Option Scheme but the Company may refresh the scheme mandate limit, by the approval of its shareholders in general meeting and the issue of a circular in accordance with the requirements of the Listing Rules, such that the total number of shares in respect of which options may be granted by the Directors under the 2002 Share Option Scheme and any other schemes of the Company shall not exceed 10% of the issued share capital of the Company at the date of approval to refresh such limit. Options previously granted under the 2002 Share Option Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised) will not be counted for the purpose of calculation limited as "refreshed". Notwithstanding the aforesaid in this paragraph, the maximum number of shares in respect of which options may be granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of shares in issue from time to time. As at 31 December 2008, the total number of shares available for issue under the 2002 Share Option Scheme was 30,750,946 (2007: 16,634,950) shares, which represented approximately 8% of the issued share capital of the Company at that day. The maximum number of shares issued and to be issued upon exercise of the options granted to each participant under the 2002 Share Option Scheme and any other share option schemes of the Company (Including exercised, cancelled and outstanding options) in any 12-month period up to the date of grant of the options, would not exceed 1% of the aggregate number of shares in issue unless the grant of such options is specifically approved by the shareholders of the Company in general meeting and a circular is issued in accordance with the requirements of the Listing Rules.

(Expressed in Hong Kong dollars unless otherwise stated)

33. SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

Equity-settled share option scheme of the Company *(continued)*

At 31 December 2008, a total of 22,084,000 (31 December 2007: 15,400,000) share options were still outstanding under the 2002 Share Option Scheme as follows:

	Grant date	At 1 January 2008	Granted during the year	Lapsed during the year	At 31 December 2008	Exercise period	Exercise price per share	Share price on the grant date
							$	$
Executive Directors								
Mr. Yiu Ching On	26.9.2006	3,200,000	—	—	3,200,000	30.11.2007-25.9.2016	0.07	0.07
	11.6.2008	—	3,842,000	—	3,842,000	11.6.2008-10.6.2018	0.50	0.50
Mr. Yiu Kwok Ming, Tommy	26.9.2006	3,200,000	—	—	3,200,000	30.11.2007-25.9.2016	0.07	0.07
	11.6.2008	—	3,842,000	—	3,842,000	11.6.2008-10.6.2018	0.50	0.50
Mr. Leung Kwok Ip	26.9.2006	3,200,000	—	—	3,200,000	30.11.2007-25.9.2016	0.07	0.07
Mr. Wong Wai Man	26.9.2006	3,200,000	—	—	3,200,000	30.11.2007-25.9.2016	0.07	0.07
Sub-total		12,800,000	7,684,000	—	20,484,000			
Other Eligible Employees	26.9.2006	2,600,000	—	(1,000,000)	1,600,000	30.11.2007-25.9.2016	0.07	0.07
		15,400,000	7,684,000	(1,000,000)	22,084,000			

(Expressed in Hong Kong dollars unless otherwise stated)

33. SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

Equity-settled share option scheme of the Company *(continued)*

Employee share option expenses related to the above grants of share option are charged to the consolidated income statement over the vesting period. Such expenses were determined by the Company based on the Black-Scholes valuation model with the following assumptions:

Date of grant	**11 June 2008**	26 September 2006
Value per option	**$0.42**	$0.04
Price per share at date of grant	**$0.50**	$0.07
Exercise price per share	**$0.50**	$0.07
Standard deviation	**1.1971**	0.7338
Annual risk-free interest rate	**3.41%**	3.69%
Life of options	**5 years**	10 years
Vesting period	**4 years**	4 years

34. DEFERRED TAX

At 31 December 2008, the Group has unused tax losses of $227,487,000 (2007: $199,893,000) available to offset future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Such losses may be carried forward indefinitely. The effect of temporary differences on depreciable assets is not material.

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of (loss)/profit before tax to net cash (outflow)/inflow from operating activities

	2008 $'000	2007 $'000
(Loss)/profit before tax		
— from continuing operations	(24,862)	7,118
— from discontinued operation	(16,709)	(12,159)
Adjustments for:		
Interest income	(886)	(1,350)
Depreciation	5,423	8,415
Amortisation of prepaid lease payments	—	98
Impairment of plant and equipment	4,212	—
Gain on disposal of property, plant and equipment	(98)	—
Interest expenses	2,997	3,346
Write-off of deposit paid	2,669	—
Finance lease charges	132	74
Fair value loss/(gain) on revaluation of investment properties	1,007	(5,176)
Share-based payment	611	154
Operating (loss)/profit before working capital changes	(25,504)	520
Decrease in inventories	22,496	1,875
Decrease in trade and bills receivables, other receivables, prepayments and deposits	19,142	2,064
(Decrease)/Increase in trade and bills payables, other payables and accruals	(21,533)	6,832
Decrease in VAT tax payable	(1,768)	(49)
Effect of foreign exchange rate changes	(435)	(2,966)
Net cash (used in)/generated from operations	(7,602)	8,276
PRC tax paid	—	(815)
Hong Kong profits tax paid	(1,142)	(630)
Interest paid	(2,997)	(3,346)
Finance lease charges paid	(132)	(74)
Net cash (outflow)/inflow from operating activities	(11,873)	3,411

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(CONTINUED)*

(b) Non-cash transactions

Additions to motor vehicles during the year amounting to Nil (2007: $1,350,000) were financed by finance leases.

36. BANKING FACILITIES

At 31 December 2008, the Group's credit facilities amounting to $136,060,000 (2007: $99,478,000) granted by banks and a credit company were secured by the following:

(a) guarantees given by the Company and the minority shareholders of subsidiaries for $116,208,000 (2007: $139,208,000) and $85,792,000 (2007: $74,992,000), respectively;

(b) charges over bank deposits of the Group *(note 24)*; and

(c) personal guarantees of $12,000,000 (2007: $5,000,000) given by one director of the Company.

The Group's credit facilities as at 31 December 2007 were also secured by legal charges over the Group's properties *(note 15)* and prepaid lease payments *(note 16)*.

37. CONTINGENT LIABILITIES

At 31 December 2008, the Company had given guarantees of approximately $116,208,000 (2007: $139,208,000) to certain banks in respect of banking facilities granted to certain subsidiaries.

Counter-indemnities in favour of the Company at an aggregate amount of $24,400,000 (2007: $24,400,000) were given by minority shareholders of subsidiaries in respect of certain guarantees given by the Company for the Group's banking facilities.

38. COMMITMENTS

Operating lease commitments

At 31 December 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2008 **$'000**	2007 $'000
Within one year	**723**	1,251
In the second to fifth years inclusive	**—**	993
	723	2,244

39. RELATED PARTY TRANSACTIONS

(a) In addition to notes 27, 28, 29 and 36 to the financial statements, during the year, the Group entered into the following material transactions with its related parties in the normal course of business:

	2008 **$'000**	2007 $'000
Rental paid to a related company *(note (i))*	**840**	840
Interest paid to a director/shareholder *(note (ii))*	**333**	397
Interest paid to a related company *(note (iii))*	**243**	—

Notes:

i. Mr. Yiu Ching On, an executive director of the Company, beneficially owns the related company. This transaction was conducted in accordance with the terms agreed between the Group and the related company.

ii. Ms. Wong Kai Chun resigned as an executive director on 7 August 2007 but still remain as a substantial shareholder by the Company (note 28).

iii. Mr. Yiu Ching On, an executive director of the Company, beneficially owns the related company (note 29).

(b) Members of key management during the year comprised only four (2007: four) executive directors whose remuneration is set out in note 10a to the financial statements.

(c) The balances with related parties as at the balance sheet date are detailed in notes 27, 28 and 29 to the financial statements.

40. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

	Loan and receivable	
	2008	2007
	$'000	*$'000*
Trade and bills receivables	**32,810**	47,365
Other receivables, prepayments and deposits	**1,237**	5,168
Bank deposits	**23,427**	37,694
Cash and bank balances	**14,698**	23,469
	72,172	113,696

Financial liabilities

	Financial liabilities at amortised cost	
	2008	2007
	$'000	*$'000*
Bank overdrafts, secured	**6,332**	3,171
Interest bearing bank borrowings, secured	**11,776**	32,513
Trust receipt loans, secured	**9,503**	11,495
Trade and bills payables	**25,925**	48,039
Other payables and accruals	**11,020**	9,008
Due to a director	**1,200**	—
Due to a shareholder	**6,013**	6,213
Due to a related company	**9,211**	—
Finance lease payables	**971**	1,691
	81,951	112,130

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise trust receipt loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's trust receipt loans with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
	%	$'000	$'000
2008			
Hong Kong dollar	**1%**	**(360)**	**(360)**
	(1%)	**360**	**360**
2007			
Hong Kong dollar	1%	(278)	(278)
	(1%)	278	278

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Foreign currency risk

The Group has transactional currency exposures as the sales and purchases of the Group were mainly transacted in Renminbi (RMB), United States Dollars ("USD") and Hong Kong dollar ("HKD"). Approximately 72.2% (2007: 74.5%) of the Group's sales are denominated in currencies other than the functional currency of the operating units marking the sales, and almost 70.2% (2007: 94.1%) of costs are denominated in currencies other than the units' functional currency.

The Group does not have significant foreign currency risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in USD and HKD, of which the exchange rate of USD was quite stable during the years ended 31 December 2007 and 2008.

Sensitively at the balance sheet date to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's net profit (due to changes in the fair value of monetary assets and liabilities):

	Increase/ (decrease) %	**Increase/ (decrease) in profit before tax** *$'000*
2008		
If Hong Kong dollar weakens against RMB	**5.0%**	**(183)**
If Hong Kong dollar strengthens against RMB	**(5.0%)**	**183**
If Hong Kong dollar weakens against USD	**5.0%**	**(469)**
If Hong Kong dollar strengthens against USD	**(5.0%)**	**469**
2007		
If Hong Kong dollar weakens against RMB	5.0%	(1,397)
If Hong Kong dollar strengthens against RMB	(5.0%)	1,397
If Hong Kong dollar weakens against USD	5.0%	(65)
If Hong Kong dollar strengthens against USD	(5.0%)	65

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale investment, other receivables and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group.

Liquidity risk

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
2008						
Bank overdrafts, secured	**6,332**	**—**	**—**	**—**	**—**	**6,332**
Interest bearing bank borrowings, secured	**—**	**11,776**	**—**	**—**	**—**	**11,776**
Trust receipt loans, secured	**—**	**9,503**	**—**	**—**	**—**	**9,503**
Trade and bills payables	**—**	**16,832**	**9,093**	**—**	**—**	**25,925**
Other payables and accruals	**—**	**11,020**	**—**	**—**	**—**	**11,020**
Due to a director	**1,200**	**—**	**—**	**—**	**—**	**1,200**
Due to a shareholder	**6,013**	**—**	**—**	**—**	**—**	**6,013**
Due to a related company	**—**	**179**	**554**	**3,416**	**5,062**	**9,211**
Finance lease payables	**—**	**91**	**217**	**663**	**—**	**971**
	13,545	**49,401**	**9,864**	**4,079**	**5,062**	**81,951**
2007						
Bank overdrafts, secured	3,171	—	—	—	—	3,171
Interest bearing bank borrowings, secured	—	16,494	16,019	—	—	32,513
Trust receipt loans, secured	—	11,495	—	—	—	11,495
Trade payables	—	34,443	13,596	—	—	48,039
Other payables and accruals	—	9,008	—	—	—	9,008
Due to a shareholder	6,213	—	—	—	—	6,213
Finance lease payables	—	141	987	563	—	1,691
	9,384	71,581	30,602	563	—	112,130

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the level of equity indices and the value of individual securities. As at the balance sheet date, the Group has not significant equity price risk.

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes bank overdrafts, interest bearing bank borrowings, trust receipt loans, trade and bills payables, other payables and accruals, VAT and tax payable, due to a director, due to a shareholder, due to a related company, finance lease payables, tax payable, less bank deposits and cash and bank balances. Capital includes equity attributable to equity shareholders of the Company.

	Group	
	2008	2007
	$'000	*$'000*
The gearing ratios as at the balance sheet dates were as follows:		
Bank overdrafts, secured	**6,332**	3,171
Interest bearing bank borrowings, secured	**11,776**	32,513
Trust receipt loans, secured	**9,503**	11,495
Trade and bills payables	**25,925**	48,039
Other payables and accruals	**11,020**	9,008
VAT and other tax payable	**27**	1,259
Due to a director	**1,200**	—
Due to a shareholder	**6,013**	6,213
Due to a related company	**9,211**	—
Finance lease payables	**971**	1,691
Tax payable	**2,879**	2,704
Less:		
Bank deposits	**(23,427)**	(37,694)
Cash and bank balances	**(14,698)**	(23,469)
Net debt	**46,732**	54,930
Total capital	**60,980**	85,640
Capital and net debt	**107,712**	140,570
Gearing ratio	**43%**	39%

42. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation. In addition, the comparative income statement has been re-presented as if the operation discontinued during the year had been discontinued at the beginning of the comparative year *(note 13)*.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 April 2009.

INVESTMENT PROPERTIES

Location	Use	Tenure	Attributable interest of the Group
A factory complex at 23 Zheng Xing Road Nantou Town Zhongshan Guangdong Province The PRC	Industrial	Medium-lease term	100%
A development site at Tongle Road Huaguang Management Area Nantou Town Zhongshan Guangdong Province The PRC	Commercial/ residential	Long-lease term	100%
Unit 16G Hua Min Building Renmin South Road Luohu District Shenzhen Guangdong Province The PRC	Office/ residential	Medium-lease term	100%

A summary of the results and of the assets, liabilities and minority interest of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below. The income statement amounts for each year in the five year financial summary have been re-presented as if the operation discontinued during the year had been discontinued at the beginning of the prior years.

	2008	2007	2006	2005	2004
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
		Restated	Restated	Restated	Restated
RESULTS					
Continuing operations					
Revenue	**287,021**	257,532	211,569	181,212	130,191
(Loss)/profit before tax	**(24,862)**	7,118	8,780	4,873	(4,471)
Tax	**(2,135)**	(1,230)	(245)	(662)	124
(Loss)/profit for the year from continuing operations	**(26,997)**	5,888	8,535	4,211	(4,347)
Discontinued operation					
Profit/(loss) for the year from a discontinued operation	**(16,315)**	(12,758)	(6,921)	(27,624)	(6,299)
(Loss)/profit for the year	**(43,312)**	(6,870)	1,614	(23,413)	(10,646)
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**149,468**	204,514	169,716	156,389	185,783
Total liabilities	**(84,857)**	(116,093)	(98,724)	(87,058)	(93,575)
Minority Interests	**(3,631)**	(2,781)	(494)	(8)	(11)
	60,980	85,640	70,498	69,323	92,197