



Luenthai

Luen Thai Holdings Limited

聯泰控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 311)



Design | Product Development | Manufacturing | Social Compliance | Supply Chain

Annual Report 2008

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Dr. TAN Siu Lin, *Chairman*
TAN Henry, *Chief Executive Officer and President*
TAN Cho Lung Raymond
MOK Siu Wan Anne, *Chief Merchandizing Officer*
TAN Sunny, *Chief Financial Officer*

NON-EXECUTIVE DIRECTOR

TAN Willie
LU Chin Chu

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHAN Henry
CHEUNG Siu Kee
SEING Nea Yie

COMPANY SECRETARY

CHIU Chi Cheung

REGISTERED OFFICE

Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman
KY1-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS

5/F, Nanyang Plaza
57 Hung To Road
Kwun Tong, Kowloon
Hong Kong

WEBSITE

<http://www.luenthai.com>

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513 G.T.
Strathvale House, North Church Street
George Town, Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Citibank, N.A.
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central, Hong Kong

LEGAL ADVISORS

Deacons
5th Floor, Alexandra House
18 Chater Road
Central, Hong Kong

BUSINESS PROFILE



Luen Thai Holdings Limited (the “Company”) together with its subsidiaries (collectively, “Luen Thai” or the “Group”) is one of the leading apparel manufacturing and supply chain services providers worldwide. We have close partnership with brands and retailers globally, which include adidas, Dillard’s, Esprit, Fast Retailing, Limited Brands, Polo Ralph Lauren and Targus among others. We produce approximately 75 million pieces of garments and accessories annually with products ranging from casual wear, ladies’ wear (career, intimate and fashion wear), sports and activewear, sweaters, outerwear, laptop bags, luxury and fashionable bags and children’s wear.

As a total apparel manufacturing and services group, Luen Thai has developed a business model “design-to-store” (“D2S”) providing a one-stop shop supply chain platform for partnership, including design and development, materials management, production and logistics. D2S answers our customers’ needs for a wide range of products and services, and faster response at a competitive cost, making it the right business model in today’s apparel industry. Through D2S, Luen Thai can offer speed-to-market solutions that will help our customers improve their supply chain through shortening total lead time, lowering of total sourcing costs and reducing retail mark-down.

In 2007, Luen Thai launched its lean initiative in the Dongguan Supply Chain City through Project Add+. This project aims to implement the concept of lean manufacturing in the organization and extending it beyond the production floor to include all levels of the business operation. The project was further expanded and rolled out in Luen Thai Philippines in 2008. Ultimately, Project Add+ will enable Luen Thai to build a lean supply chain with its customers.

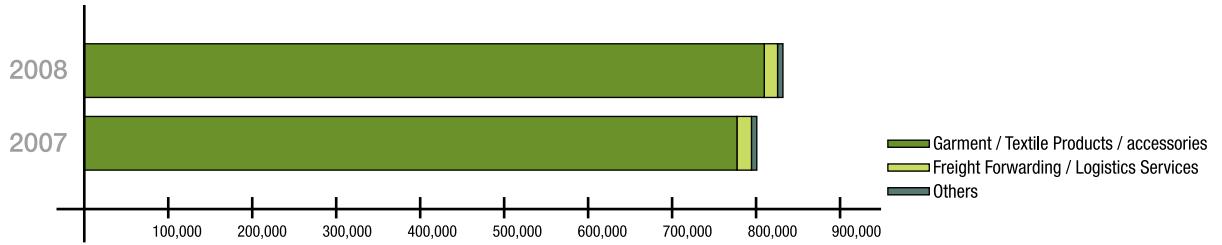
Unlike traditional apparel manufacturers focusing mostly on production, Luen Thai offers a hybrid model of multiproduct manufacturing and outsourcing. First of its kind in the industry, Luen Thai set up its first Supply Chain City in Dongguan, People’s Republic of China (“China”) with dedicated development centers allowing customers to work with our team in all phases of the supply chain process. Along with our customers, Luen Thai has been committed to compliance to corporate social responsibilities.

Headquartered in Hong Kong, Luen Thai has production and outsourcing partner facilities in China, the Philippines, Indonesia, India and Bangladesh. Our sales, design and logistics offices are located in Asia Pacific, the United States and Europe. With annual revenue of approximately US\$832 million, Luen Thai employs over 26,000 people worldwide.

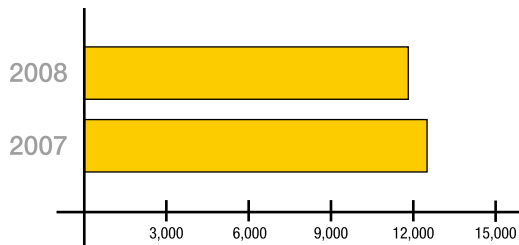
KEY FINANCIAL HIGHLIGHTS

	2008 US\$'000	2007 US\$'000
Revenue	832,002	800,877
Gross Profit	154,289	154,895
As a percentage of revenue	18.5%	19.3%
Operating Profit	23,112	23,995
As a percentage of revenue	2.8%	3.0%
Profit Attributable to the Equity Holders of the Company	11,829	12,515
As a percentage of revenue	1.4%	1.6%
Earnings Per Share	US1.2 cent	US1.3 cent
Dividend Per Share		
– Final	US0.145 cent	US0.174 cent
– Interim	US0.213 cent	US0.205 cent
Capital and Reserves		
Attributable to the Equity Holders of the Company	221,562	220,286

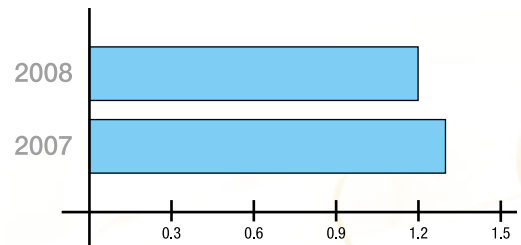
REVENUE



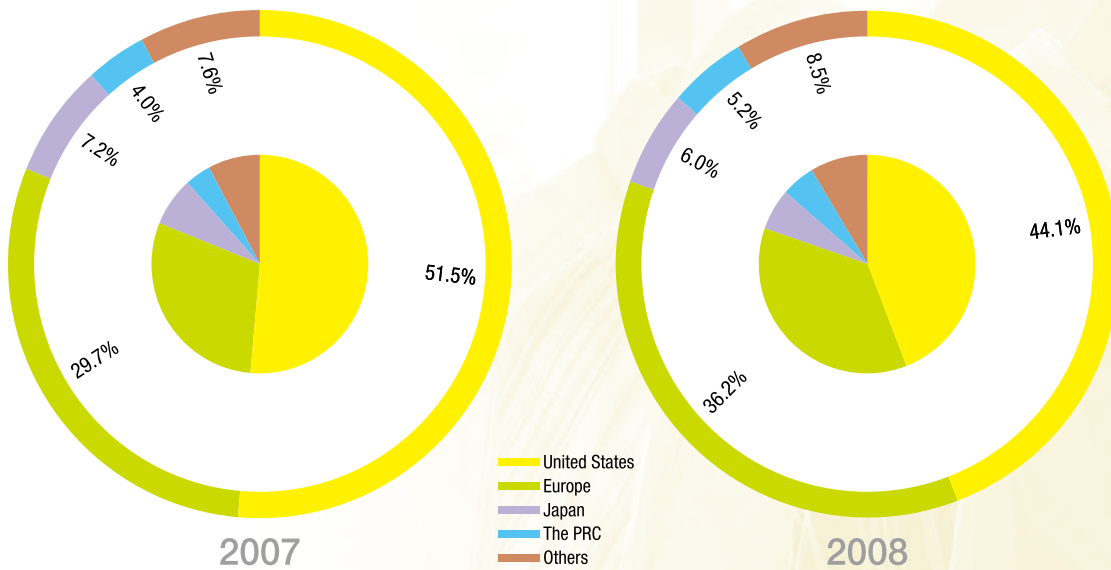
PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY



EARNINGS PER SHARE



SALES BY GEOGRAPHICAL SEGMENTS



2008 EVENTS HIGHLIGHTS



MARCH

- Luen Thai launched its lean initiative in its Dongguan Supply Chain City through Project Add+ last year. The project is further expanded and rolled out in Luen Thai Philippines in 2008. Ultimately, Project Add+ will enable Luen Thai to build a lean supply chain with its customers.



JUNE

- Luen Thai and its employees have made a total donation of HK\$1,000,000 through the Liaison Office of the Central People's Government for the victims of the Sichuan earthquake. Apart from financial help, Luen Thai also donated over 25,000 pieces of garments to the earthquake victims.



JULY

- Luen Thai has unveiled a new production facility in Dandong, northern China. The partner facility aims to boost Luen Thai's China presence as well as multi-product and multi-service strategy. Aside from manufacturing, the facility offers services in washing, cutting and embroidery. Products include knit and woven jackets, basic placket shirts, men's casual woven shirts and outerwear.



AUGUST

- Luen Thai completed the acquisition of 60% stake in Trinew Limited, one of the world's largest laptop bags manufacturers in August 2008. Headquartered in Hong Kong with manufacturing plants in China and sales office in Los Angeles, Trinew Limited has maintained its leadership position in the laptop bags business.



NOVEMBER

- Luen Thai CEO Henry Tan was invited to join a meeting led by China's Premier Wen Jiabao and Guangdong Provincial Government in November 2008 in Guangzhou. Mr. Tan, who is also chairman of the Hong Kong General Chamber of Textiles Ltd., represented Dongguan and the textile industry in the meeting.

CHAIRMAN'S STATEMENT



2008 is another difficult year for manufacturers due to the continued deterioration of business levels in the manufacturing industry and the general economic environment in China and globally. The implementation of various policies and measures by the Chinese government to cool down what was an overheated economy in the past few years had increased our cost of operations. The appreciation of Chinese Yuan ("RMB") and the reduction of VAT refund rate are obvious examples of such government policies and measures. What made the situation worse was the unprecedented financial turmoil and credit crunch triggered by the US sub-prime mortgage crisis in 2008 followed by the troubles of Lehman Brothers and other multinational conglomerates, which affected almost all our major markets including USA, Europe and Japan. As a result, our customers have become more cautious in procurement and delayed current orders in anticipation of shrinking consumer demands. Amid the volatile global market, we have continued our commitment and focus to provide the best-valued products and services to our customers. During 2008, not only did we improve our product and service range but we also expanded and diversified our global geographical coverage.

Against the backdrop of these worsening market environments, I am pleased to report that Luen Thai achieved another year of record high revenue in 2008 of approximately US\$832,002,000.

This also proves the success of our continued expansion of our businesses through mergers and acquisitions ("M&A").

In terms of profit, however, the Group achieved a profit attributable to equity holders of approximately US\$11,829,000 in 2008 representing an approximately 5.5% decrease from 2007, mainly due to the margin pressures.

All in all, I believe Luen Thai's business model, being a comprehensive apparel supply chain process in providing customers with an end-to-end value proposition from design support all the way to logistics and distribution, will continue to better serve Luen Thai's customers through shorter lead times and value-added services in all aspects of the supply chain. The overall supply chain efficiency, product diversity and outsourcing capabilities are the critical success factors in the industry where customers continue to consolidate their supply channels as well as origination countries.

FUTURE PLANS AND PROSPECTS

With the complete elimination of the quota system in 2009, the Group will have more flexibility in taking orders. However, global trade protectionism has become a growing concern in view of the contraction in world consumer demands. Luen Thai's market diversification strategy should be able to mitigate the risk of such growing global trade protectionism. As part of such strategy, Luen Thai shall further diversify its geographical markets with a particular focus on Japan and China in 2009.

On the production side, since the fourth quarter in 2008, the Chinese government seemed to have been taking proactive measures, including the increase of VAT refund rate in order to stabilize the market and mitigate the negative impacts from the rest of the world. We believe that the fundamentals of the Chinese economy shall remain sound and intact to fend off the impacts of the global financial turmoil due to its high saving rate and rapid urbanization.

CHAIRMAN'S STATEMENT

On the investment side, the Group has successfully applied for a conversion of land use for a piece of land which it owns in Qingyuan ("Converted Land") from industrial to commercial/residential use in March 2008. On 26 March 2009, the independent shareholders of the Company approved the acquisition of a target company which owns another piece of land ("Target Land") in Qingyuan next to the Converted Land. The combination of the Target Land (with roadside frontage) and the Converted Land, with a combined area of more than 500,000 square meters, is expected to bring increased value to the Group as well as potentials for the Group to enter into the PRC property development market. In view of the strong domestic consumption in China and the growth potential of its retail market, the Group is also actively exploring the feasibility of putting more resources in this area.

Looking ahead into 2009, the global financial turmoil continues to cloud our markets, which we expect will remain challenging. Our management therefore takes a conservative and cautious view on the Group's financial performance in 2009 but is optimistic in the longer term.

CORPORATE GOVERNANCE

The Group acknowledges that good corporate governance is one of the key elements in creating shareholders' value. The Group is committed to improving its corporate governance policies in compliance with the regulatory requirements and in accordance with international best practices. As at the date of this report, the Company has formed the Audit Committee, Remuneration Committee and Bank Facility Committee all at the Board of Directors (the "Board") level, to provide assistance, advice and recommendations on relevant matters that aim to ensure protection of the interests of the Group and the Company's shareholders as a whole.

APPRECIATION

On behalf of the Group, I would like to take this opportunity to express my gratitude to all our customers, vendor partners, and shareholders for their support. I would also like to thank our dedicated employees for their contribution and hard work. None of the Group's achievements could have been possible without them. Finally, I am grateful to my fellow Board members and the senior management for their commitment and immeasurable contributions to the Group.

TAN Siu Lin

Chairman

Hong Kong, 17 April 2009

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT REVIEW

Revenue of the Group recorded for the year ended 31 December 2008 increased by approximately 3.9% to approximately US\$832,002,000, as compared to approximately US\$800,877,000 recorded for the previous year. Such increase was mainly attributable to the value-enhancing acquisition which was in line with the Group's expansion strategies. Acquisitions and customer partnerships which are complementary to our business model have proven to be the important growth driver for the Group. The Group has gained certain important customers in the past few years and the Group's top ten customers in 2008 (in alphabetical order) include adidas, Ann Taylor, Dillard's, Esprit, Fast Retailing, GAP, Limited Brands, Liz Claiborne, Polo Ralph Lauren and Targus.

Luen Thai's overall gross profit for 2008 was approximately US\$154,289,000 as compared to approximately US\$154,895,000 in 2007. Such decrease was mainly attributable to margin pressures as the overall gross profit margin in 2008 was only approximately 18.5% as compared to approximately 19.3% in 2007. The Group's operating profit for 2008 was approximately US\$23,112,000, representing a decrease of approximately 3.7% over the Group's operating profit for 2007. Certain cost control initiatives implemented since 2007 has borne fruit as shown by our decreasing selling and distribution costs. The slight increase in the general and administrative expenses was mainly due to the acquisition of a new subsidiary, Trinew Limited, in August 2008.

The Group's profit before income tax in 2008 was approximately US\$21,960,000. The profit attributable to the equity holders of the Company for the year ended 31 December 2008 was approximately US\$11,829,000, representing an approximate 5.5% decrease over that recorded for 2007.

SEGMENTAL REVIEW

Garment, textile products and accessories are currently the Group's major source of revenue. These include the Group's OEM garment manufacturing, garment sourcing and trading and bags business, and accounted for approximately 97.3% of the Group's total revenue in 2008.

The Group's freight forwarding and logistics services recorded a total revenue of approximately US\$15,855,000 in 2008, representing a decrease of approximately 8.1% over that recorded for 2007.

Geographically, the US market was still the Group's key export market in 2008, accounting for approximately 44.1% of the Group's total revenue that year. This percentage, however, has been gradually reducing from 74.3% since the Group's listing on the Stock Exchange in 2004. This reflects our success in geographical diversification in order to reduce the Group's over reliance on one single market. This is of particular importance in view of the weak US consumer market.

Europe continued to be the second largest export market of the Group in 2008 but it was also the second fastest growing market in the same year. Europe accounted for approximately 36.2% of the Group's total revenue in 2008 representing an approximately 26.9% growth over that recorded for 2007. This strong performance was attributable to our organic growth into the market together with our success in acquisitions.

The PRC market is our fastest growing market and accounted for approximately 5.2% of the Group's total revenue in 2008. This growth was mainly attributable to the Group's continuous effort in participation in the mainland China local sales market.

Our expansion plans will focus on the Asian markets in 2009, starting with Japan. In 2008, Japan accounted for only approximately 6% of the Group's total revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

On the production side, the Group had also diversified its production bases/outsourcing platforms to reduce its over reliance on mainland China. The mainland China, the Philippines, Indonesia, India and Bangladesh were the Group's major production bases/outsourcing platforms in 2008.

ACQUISITIONS AND JOINT VENTURES

It is the Group's strategy to strengthen its apparel manufacturing and supply chain capabilities by way of selective value-enhancing acquisitions and joint ventures, which have proven to be an important part of the Group's growth strategy.

In June 2008, Luen Thai entered into a sales and purchase agreement to acquire a 60% equity stake in Trinew Limited together with its subsidiaries (the "Acquisition"). Details of the Acquisition were more particularly described in the Company's circular dated 30 June 2008. Trinew Limited formally became the Company's subsidiary starting from 8 August 2008. Trinew Limited, through its subsidiaries, is principally engaged in the manufacturing of laptop bags, fashionable bags and general bags products. The Acquisition of Trinew Limited has further enhanced Luen Thai's product range and it provides a good cross selling opportunity of luxury and fashionable bags to the Group's existing customers.



Riding on the success of M&A in the past, the Group will continue to take calculated risks to expand its businesses through M&A in order to further diversify its customer and production bases/outsourcing platforms.

INVESTOR RELATIONS AND COMMUNICATIONS

We acknowledge the importance of communication with our shareholders, and have implemented a policy of proactively promoting investor relations through meetings with analysts and investors, and participation in investors' conferences, company interviews and manufacturing plant visits. All shareholders have no fewer than 21 days notice of the Annual General Meeting at which Directors shall be available to answer questions on Group's businesses.

The Group has established various forms of communication channels to improve transparency including proactive and timely issuance of press releases so as to inform investors of our latest corporate developments. The Group maintains a website (www.luenthai.com) in both English and Chinese to disseminate information electronically on a timely basis to all concerned parties.

FINANCIAL RESULTS AND LIQUIDITY

As at 31 December 2008, the total amount of cash and bank balances of the Group was approximately US\$117,839,000, representing an increase of approximately US\$21,171,000 as compared to 31 December 2007. The Group's total bank borrowings as at 31 December 2008 were approximately US\$83,540,000, representing an increase of approximately 60.2% as compared to approximately US\$52,158,000 as at 31 December 2007.

As at 31 December 2008, the maturity dates of the Group's bank borrowings were spread over five years with approximately US\$50,281,000 repayable within one year or on demand, approximately US\$8,509,000 in the second year, approximately US\$13,500,000 in the third to fifth year, and approximately US\$11,250,000 after five years.

Gearing ratio is defined as net debt (represented by bank borrowings net of cash and bank balances) divided by the capital and reserves attributable to the equity holders of the Company. As at 31 December 2008, the Group is in a net cash position. Hence, no gearing ratio is presented.

FOREIGN EXCHANGE RISK MANAGEMENT

The Group adopts a prudent policy to hedge against the fluctuations in exchange rates. Most of the Group's operating activities are denominated in US dollar, Hong Kong dollar, Chinese Yuan, Philippine Peso and Euro. For those activities denominated in other currencies, the Group may enter into forward contracts to hedge its receivables and payables denominated in foreign currencies against the exchange rate fluctuations.

CONTINGENT LIABILITIES AND OFF-BALANCE SHEET OBLIGATIONS

The Group is involved in various labour lawsuits and claims arising from the normal course of business. The Directors believe that the Group has substantial legal and factual bases for their position and are of the opinion that losses arising from these lawsuits, if any, will not have a material adverse impact on the results of the operations or the financial position of the Group. Accordingly, no provision for such liabilities has been made in the financial statements.

HUMAN RESOURCES, SOCIAL RESPONSIBILITIES AND CORPORATE CITIZENSHIP

Luen Thai continues to be employer of choice through focused and strategic human resources strategies and social responsibility programs that are aligned with the company's growth and changing needs.

Improved governance and strengthened partnership serve as the foundation for all these initiatives as Luen Thai maintains its position as a leader in the fashion industry.

With over 26,000 employees around the world, Luen Thai continuously strives to foster open communication with employees through various channels.

MANAGEMENT DISCUSSION AND ANALYSIS

Under its employee care initiatives, Luen Thai has provided safe and enjoyable work and living environments, equitable compensation and benefit schemes, and opportunities for career growth through a variety of formal and informal learning and development programs; and a strong corporate culture where employees' contributions are recognized and rewarded. In addition, Luen Thai aims to become a healthy employer, taking an active role in wellness advocacy.

Corporate Social Responsibility

Luen Thai remains committed to strengthening multiple stakeholder relationships through the principles of its corporate social responsibility: engaging in lawful, transparent and ethical business practices as well as growing commitment to environment stewardship.

"Go Green" is a continuing program where environmental awareness and volunteerism are inculcated among employees.

Moreover, giving back to the community is a priority in Luen Thai. Both management and employees participate in various educational and charitable initiatives that benefit different sectors of the communities where Luen Thai operates.



MANAGEMENT EXECUTIVES

EXECUTIVE DIRECTORS

Dr. TAN Siu Lin, aged 78, is the founder and Chairman of the Group. Dr. Tan is also the Chairman of the Peking University Luen Thai Center for Supply Chain System R&D (北京大學聯泰供應鏈系統研發中心), the PRC, and the Chairman of TSL School of Business and Information Technology in Quanzhou Normal University (泉州師範學院陳守仁工商信息學院). Dr. Tan is a board member of the Shaw College at the Chinese University of Hong Kong and the Vice-Chairman of the Huaqiao University (華僑大學) as well as the honorable president of the Hong Kong General Chamber of Textiles Limited. Dr. Tan holds an honorary Doctoral of Laws degree from the University of Guam.

TAN Henry, BBS, JP, aged 55, is the Chief Executive Officer and President of the Group and son of Dr. TAN Siu Lin. Mr. Tan is also a member of the Remuneration Committee and the Bank Facility Committee. Mr. Tan joined the Group in January 1985 and has over 24 years of experience in apparel and logistics industries. Mr. Tan is the Chairman of the Hong Kong General Chamber of Textiles Limited and is also an independent non-executive director of Kingboard Chemical Holdings Limited. Mr. Tan acts as committee member of the Chinese People's Political Consultative Conference in Fujian (中國人民政治協商會議福建省委員會委員) and the member of Standing Committee of the Chinese People's Political Consultative Conference in Qingyuan City of Guangdong Province (廣東省清遠市政協常委). Mr. Tan also acts as the executive vice chairman of China Council for the Promotion of Peaceful National Reunification of Hong Kong Region (香港地區中國和平統一促進會常務副會長), vice president of Overseas Chinese Economic and Cultural Foundation of China (中國華僑經濟文化基金會副理事長), member of Garment Advisory Committee of Hong Kong Trade Development Council (香港貿易發展局成衣業諮詢委員會委員) and the council member of Huaqiao University. Mr. Tan is a past Chairman of Po Leung Kuk, an authorized charity organization in Hong Kong. Mr. Tan obtained his Master's degree in Business Administration and Bachelor's degree in Business Administration from the University of Guam.

TAN Cho Lung, Raymond, aged 47, is the President of Luen Thai International Group Limited and son of Dr. Tan Siu Lin. Mr. Tan joined the Group in 1989 and has over 19 years of experience in the industry. Mr. Tan is a member of the advisory board of the Textile Projects Vetting Committee for the Innovation and Technology Fund of Hong Kong. Mr. Tan was the recipient of the Young Industrialist Award of Hong Kong and the DHL/SCMP Owner-Operator award for 2003. Mr. Tan graduated with a Bachelor's degree in Business Administration from the University of Guam.

MOK Siu Wan, Anne, aged 56, is the President and Chief Merchandizing Officer of Luen Thai International Group Limited and the Managing Director for the subsidiary companies of GJM & TellaS. Ms. Mok is an accomplished industry professional with years of experience in key executive and board member positions out of which over 22 years were spent within various management positions within the Swire Group Companies. Ms. Mok also held senior management positions with other large companies including Pentland Group plc, an international group which develops and owns some leading brands in the sports and fashion business, and Li & Fung Limited. Ms. Mok graduated with a Bachelor's degree in Arts from the University of Hong Kong and has attended the management programmes organized by Harvard University, Tsinghua University and INSEAD Euro-Asia Centre. Ms. Mok was a member of the Board of Governors for the American Chamber of Commerce in Hong Kong from 1998 to 2003 and the Chairman of the Textiles Committee for the American Chamber of Commerce in Hong Kong in 1996 and 1997. Ms. Mok joined the Group in 2003.

TAN Sunny, aged 35, is the Chief Financial Officer of the Group and son of Dr. TAN Siu Lin. Mr. Tan joined the Group in 1999. Prior to joining the Group, Mr. Tan worked at the investment banking division of Merrill Lynch. In 2006, he was appointed as the Vice Chairman of the Hong Kong General Chamber of Textiles Limited and a special advisor to the Governor of Commonwealth of the Northern Mariana Islands. Mr. Tan obtained a Master of Science degree from Stanford University and Bachelor of Business Administration degree from the University of Wisconsin-Madison.

MANAGEMENT EXECUTIVES

NON-EXECUTIVE DIRECTORS

TAN Willie, aged 53, is the Chief Executive Officer of the privately held businesses of the Tan Family namely Luen Thai Enterprises Limited and Tan Holdings Corporation. Mr. Tan is the son of Dr. Tan Siu Lin and joined the apparel division in 1985 and has held the positions of Executive Vice President and later on Chief Operating Officer prior to his appointment to lead the privately held businesses. Mr. Tan has almost 26 years experience in business management in various disciplines including apparel and footwear manufacturing, fishing, logistics including cargo airline and shipping, wholesale and retail operations, hotel, travel and tours, insurance, financial and health care services. Mr. Tan obtained his Bachelor's Degree in Business Administration from the University of Guam. He is currently the External Vice President of the Philippine-China Business Council, Chairman of the Confederation of Garment Exporters of the Philippines, a member of China's Chinese People's Political Consultative Conference in Qingyuan, Guangdong (中國人民政治協商會議廣東省清遠市委員會委員) and a director for Quanzhou City Global Youth Federation. In November 2007, Mr. Tan was appointed Honorary Ambassador-at-Large for Guam, USA.

LU Chin Chu, aged 55, is an executive director and also the General Manager of one of the three manufacturing groups of Yue Yuen Industrial (Holdings) Limited, a company listed on The Stock Exchange of Hong Kong Limited and is considered a substantial shareholder of the Company under the Rules Governing the Listing of Securities on the Stock Exchange. Additionally, he is currently a director of San Fang Chemical Industry Co. Ltd., Global Brands Manufacture Limited and Evermore Chemical Industry Co. Ltd., companies being listed on the Taiwan Stock Exchange in Taiwan. Mr. Lu also holds several directorships in certain private companies established in Taiwan, Hong Kong, mainland China, the United States, Bermuda and the British Virgin Islands, which are engaged primarily in investment holding, production and marketing of non-apparel products, except for Yuen Thai Industrial Company Limited, a joint venture company established between Yue Yuen and the Group in 2004 to develop active wear business. Mr. Lu is an accomplished industry professional with over 31 years of experience in the manufacturing of footwear and related components. He joined the Group in 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHAN Henry, aged 43, is a member of both the Audit Committee and the Remuneration Committee. Mr. Chan has over 21 years of experience in the financial market and is the Managing Director of Sanfull Securities Limited. He was a Director of The Stock Exchange of Hong Kong Limited. Mr. Chan is currently a member of the Advisory Committee of the Securities and Futures Commission, the Permanent Honorary President of Hong Kong Stockbrokers Association Limited, an independent non-executive director of Hengan International Group Company Limited, a company listed on the Main Board of the Stock Exchange which engages in the manufacture and distribution of personal hygiene products. Mr. Chan is also a committee member of the Chinese People's Political Consultative Conference in Xiamen, Fujian Province, China. Mr. Chan obtained his Master's degree in Business Administration from Asia International Open University (Macau) and his Bachelor's degree in Arts from Carleton University in Canada. He joined the Group in 2004.

CHEUNG Siu Kee, aged 65, is a member of both the Audit Committee and the Remuneration Committee. Mr. Cheung has extensive experience in the financial industry. Mr. Cheung was the Group Treasurer of Nam Tai Electronics, Inc. from 2004 to 2005. Mr. Cheung had also worked for the Hongkong and Shanghai Banking Corporation Limited in Hong Kong for 37 years when he retired in 2003 as a Senior Executive in the Corporate and Institutional Banking division. Mr. Cheung obtained his Bachelor's degree in Arts from the University of Hong Kong. He joined the Group in 2004.

SEING Nea Yie, aged 61, is the Chairman of both the Audit Committee and the Remuneration Committee. Mr. Seing is the senior partner of both accounting firms Messrs. Chan, Seing & Co. and Messrs. Chen Yih Kuen & Co. Certified Public Accountants (Practising). Mr. Seing has over 34 years of audit experience and is currently holding CPA (Practising) at Hong Kong Institute of Certified Public Accountants. Mr. Seing is an active contributor to the charity activities in the community. He was the Director of Po Leung Kuk, an authorized charity organization in Hong Kong, from 1987

to 1990 and became the Vice Chairman in 1990 and 1991. Mr. Seing was also a member of audit committee of Po Leung Kuk from 1996 to 2000. Currently, Mr. Seing is the honorary president of The Fukienese Association Limited. He joined the Group in January 2005.

SENIOR MANAGEMENT

CHAN Wei Ben, Benny, aged 56, is the Senior Vice President of Textile Division. Mr. Chan is responsible for the overall management of the operation of the end-to-end process of the textile business. Mr. Chan joined the Group in 1980.

CHOI Suk Yan, Belinda, aged 60, is the Group Finance Controller and Treasurer. Ms. Choi has over 34 years of experience in various areas of the apparel manufacture industry with over 23 years of experience in financial management. She joined the Group in 1967.

DILCOCK, Victoria Anne Theresa, aged 54 is the Senior Vice President for Manufacturing for YTI and President of Yuen Thai Philippines Incorporated. Ms. Dilcock joined the Group in 2003 and has over 36 years of expertise in product development, technical process management and 'Lean' manufacturing gained from top garment and textile companies in the United Kingdom, Morocco, and China. Prior to joining the Group, she held key executive positions with Sara Lee Courtaulds, Claremont Garments Ltd. and Brentwood Clothing Ltd (Stirling Group) among other companies based in the United Kingdom, Morocco, and China. She attended courses on Engineering, GSD, Work Study and Ergonomics at Eriksson's Management Consultancy in the UK.

HELFFENBEIN Richard A., aged 60, is the President of Luen Thai USA. Mr. Helfenbein has extensive experience in the industry in key executive positions with Crystal Brands Inc., as the President of Izod/Lacoste Youthwear and as the Managing Director of Apparel Services at Burlington Industries, Inc.. He has been with the Group since 1999. Mr. Helfenbein had served for many years on the Board of Trustees of Blythedale Children's Hospital in New York, and is currently a Board Member of the Greyston Foundation, as well as a Board Member and Executive Committee Member of American Apparel and Footwear Association, the highly prestigious national trade organization in the United States of apparel, footwear, and other sewn products companies, and their suppliers. Mr. Helfenbein received a Bachelor of Science degree in Economics from the Wharton Business School at the University of Pennsylvania, and often lectures at Industry Events and prestigious universities in the USA on the subjects of Supply Chain Management and International Trade.

Dr. ROMAGNA John, aged 63, is the Senior Vice President of Supply Chain Processes and Systems Division. Dr. Romagna joined the Group in 1997 and has over 28 years of business strategy, and process analysis and reengineering experience leveraging information technology. He has been a consultant on major projects for various organizations and companies including Huawei Technology; engineering divisions of Toshiba, Fujitec, and Mitsubishi; Macau Telephone; GTE; Adventis; Gammon Construction; the Hong Kong Department of Industry; the Hong Kong Construction Association; various divisions of U.S. government; and the World Bank, among others. Dr. Romagna holds a PhD from Columbia University and did post-doctoral work at Princeton University in systems analysis and policy analysis. He is the author of a book on Quality Management Systems published by the Chinese Manufacturer's Association of Hong Kong, and co-editor and author of a book on Supply Chain Management Practices published by Peking University Press.

SAUCEDA JR Francisco, aged 50, is Executive Vice President of Luenthai International Group, Ltd., and is responsible for the end-to-end operations of the knit business for Polo Ralph-Lauren. He concurrently holds the position of President of Luen Thai Philippines. He has been with the Group since 1994. Mr. Saucedo obtained his Bachelor's degree in Business Administration from Texas Southmost College, University of Texas. He is both the Vice-Chairman of the Asia-Africa Committee and Manpower Committee of the Hong Kong Chamber of Commerce. He is also a member of Worldwide ERC's Asia-Pacific Committee and its Executive Roundtable.

MANAGEMENT EXECUTIVES

TAN Cho Yee, Jerry, aged 47, is the Chief Executive Officer of CTSI Logistics, responsible for the worldwide logistics business of the Group. Mr. Tan is the son of Dr. TAN Siu Lin and he joined the Group in 1989. Mr. Tan has over 19 years of experience in logistics operations. Mr. Tan has been the Chairman of the Mariana Visitor's Authority since 2006, having been appointed by the Governor of the Commonwealth of the Northern Mariana Islands (CNMI). Mr. Tan also sits as a member of the Strategic Economic Development Council and Air Service Committee of CNMI, both think-tank groups comprised key people from the government and private industry. He served as a director of the Saipan Chamber of Commerce in 2003 and 2004. Active in community service, Mr. Tan is also the President of the Chinese Association of Saipan, Board Member of the American Red Cross CNMI Chapter, and Northern Marianas College Foundation. Equally devoted to promoting sports for all ages, Mr. Tan is also President of the Saipan Bowling Association, President of the Northern Mariana Islands Football Association, and ExCo Member of the East Asian Football Federation (EAFF). Mr. Tan was awarded "2003 Business Person of the Year" by the Saipan Chamber of Commerce. The following year, Mr. Tan was named "2004 Employer of the Year" by the CNMI Chapter of the Society for Human Resources Management. Mr. Tan obtained a degree in Bachelor of Business Administration from the University of Guam.

WONG, Sammy, aged 52, is the Managing Director of Tien-Hu Trading (Hong Kong) Limited and Tien-Hu Knitting Factory (Hong Kong) Limited. Mr. Wong joined Tien-Hu in 1981 and has over 28 years of experience in sweater business. Mr. Wong obtained a Diploma in Architectural and Environmental Design and is an Associate of the OCAD University in Toronto, Canada.

WONG, Wallace, aged 50, is the Managing Director of Tien-Hu Knitters Limited. Mr. Wong joined Tien-Hu in 1983 and has over 26 years of solid business expertise in the sweater knitting and trading areas. Mr. Wong holds a Bachelor's degree in Marketing from the University of Texas, USA.

INGLIS, Owen, aged 50, Chief Executive Officer of Desk Top Ltd, Mr. Inglis has extensive experience in the computer carrying case and bag manufacturing industry having founded Desk Top in 1990. He has a Bachelor of Commerce degree from the University of New South Wales and is a member of the Australian Institute of Chartered Accountants. He worked with both Peat Marwick and Mitchell and Deloitte Haskin's and Sell's in Sydney for a number of years before returning to Hong Kong the place of his birth in 1983. Mr. Inglis was additionally Managing Director of J.P.Inglis and Sons Ltd a Hong Kong based trading company from 1983 to 1996.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

CHIU Chi Cheung, aged 45, is the Vice President of Corporate Finance, Company Secretary and Qualified Accountant of the Company. Mr. Chiu has over 16 years of experience in the field of auditing and accounting. He joined the Group in 2002. He was an auditing manager of an international auditing firm. Mr. Chiu is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Chiu holds a Bachelor of Business Administration degree from the University of Hong Kong.

REPORT OF THE DIRECTORS

The board of directors of Luen Thai Holdings Limited (the “Directors”) has the pleasure in presenting to the shareholders this annual report together with the audited financial statements of Luen Thai Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacturing and trading of garment, textile products and accessories and the provision of freight forwarding and logistics services.

GROUP PROFIT

The consolidated income statement is set out on page 41 and shows the Group’s profit for the year ended 31 December 2008. A discussion and analysis of the Group’s performance during the year and the material factors underlying its results and financial position are provided on pages 9 to 12 of the annual report.

DIVIDENDS

An interim dividend of US0.213 cent per share was paid to the shareholders during the year totaling to approximately US\$2,114,000 and the Directors recommend the payment of a final dividend of US0.145 cent per share to the shareholders on the register of members of 29 May 2009 totaling to approximately US\$1,439,000.

SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES

Details of the principal subsidiaries, associated companies and jointly controlled entities of the Company and the Group as at 31 December 2008 are set out in notes 9 to 11 to the financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 16 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 17 to the financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company available for distribution as dividends amounted to approximately US\$191,493,000 as at 31 December 2008, comprising retained earnings of approximately US\$2,931,000, a share premium of approximately US\$116,998,000 and a capital reserve amounting to approximately US\$71,564,000. Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account and the capital reserve account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debt as they fall due in the ordinary course of business.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 112 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of approximately US\$10,400,000. Details of the movements in property, plant and equipment of the Group during the year are set out in note 7 to the financial statements.

REPORT OF THE DIRECTORS

RETIREMENT SCHEMES

Details of the retirement schemes are set out in note 19 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately US\$273,000.

SHARE OPTIONS

A share option scheme was adopted by the sole shareholder of the Company at the general meeting held on 27 June 2004, pursuant to which options may be granted to Eligible Participants ("Eligible Participants") to subscribe for shares in the Company (the "Share Option Scheme"). The purposes of the Share Option Scheme are to recognize and acknowledge the contributions that the Eligible Participants have made or may make to the Group and provide them an opportunity to acquire proprietary interests in the Company with the view of achieving the following principal objectives:

- a) motivate the Eligible Participants to optimize their performance and efficiency for the benefit of the Group; and
- b) attract and retain or otherwise maintain ongoing business relationship with the Eligible Participants whose contributions are or will be beneficial to the Group.

A summary of details of the Share Option Scheme is set out as follows:

Eligible Participants:

At the Board's discretion include —

- (i) any Director, employee or officer employed by any Group company ("Employee"), consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or subsidiary of such company ("Affiliate"); or
- (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any Director, Employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate; or
- (iii) a company beneficially owned by any Director, Employee, consultant, professional, customer, supplier, agent, partner, advisor of or contractor to the Group or an Affiliate.

Minimum period for which an option must be held before it can be exercised:

An option may be exercised at any time during a period to be notified by the Board to each grantee. The Board may also provide restrictions on the exercise of an option during the period an option may be exercised.

Amount payable on acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid:

HK\$10 within 21 days of offer

Basis of determining the exercise price: The exercise price shall be determined by the Board and not less than the highest of –

- (i) the closing price of a share as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on the date of grant of the relevant option, which must be a business day;
- (ii) an amount equivalent to the average closing price of a share as stated in the Stock Exchange’s daily quotation sheets for the 5 business days immediately preceding the date of grant of the relevant option; and
- (iii) the nominal value of share on the date of grant.

Remaining life of the Share Option Scheme: The Share Option Scheme will remain in force until 26 June 2014, unless otherwise determined in accordance with its term.

The following is a summary of options granted and outstanding during the year ended 31 December 2008:

	Note	Date of grant (dd/mm/yyyy)	Exercisable Period (dd/mm/yyyy)	Exercise Price Per Share	No. of share options			As at 31 December 2008
					As at 1 January 2008	Granted during the year	Cancelled/ Lapsed during the year	
TAN Henry	4	26/01/2006	26/01/2007 – 25/01/2011	HK\$2.52	200,000	–	–	200,000
		10/11/2006	10/11/2007 – 09/11/2011	HK\$1.28	250,000	–	–	250,000
					450,000	–	–	450,000
TAN Cho Lung, Raymond	4	26/01/2006	26/01/2007 – 25/01/2011	HK\$2.52	150,000	–	–	150,000
		10/11/2006	10/11/2007 – 09/11/2011	HK\$1.28	150,000	–	–	150,000
					300,000	–	–	300,000
Mok Siu Wan, Anne	6	26/01/2006	26/01/2007 – 25/01/2011	HK\$2.52	500,000	–	–	500,000
		10/11/2006	10/11/2007 – 09/11/2011	HK\$1.28	700,000	–	–	700,000
		21/04/2008	21/04/2009 – 20/04/2013	HK\$0.71	–	2,000,000	–	2,000,000
					1,200,000	2,000,000	–	3,200,000
TAN Sunny	4,7	26/01/2006	26/01/2007 – 25/01/2011	HK\$2.52	300,000	–	–	300,000
		10/11/2006	10/11/2007 – 09/11/2011	HK\$1.28	400,000	–	–	400,000
					700,000	–	–	700,000

REPORT OF THE DIRECTORS

	Note	Date of grant (dd/mm/yyyy)	Exercisable Period (dd/mm/yyyy)	Exercise Price Per Share	No. of share options			As at 31 December 2008
					As at 1 January 2008	Granted during the year	Cancelled/ Lapsed during the year	
TAN Willie	5	26/01/2006	26/01/2007 – 25/01/2011	HK\$2.52	300,000	–	–	300,000
					300,000	–	–	300,000
Other Employees		26/01/2006	26/01/2007 – 25/01/2011	HK\$2.52	5,835,000	–	–	5,835,000
		10/11/2006	10/11/2007 – 09/11/2011	HK\$1.28	6,415,500	–	–	6,415,500
		21/04/2008	21/04/2009 – 20/04/2013	HK\$0.71	–	11,350,000	–	11,350,000
					12,250,500	11,350,000	–	23,600,500
Total		26/01/2006	26/01/2007 – 25/01/2011	HK\$2.52	7,285,000	–	–	7,285,000
		10/11/2006	10/11/2007 – 09/11/2011	HK\$1.28	7,915,500	–	–	7,915,500
		21/04/2008	21/04/2009 – 20/04/2013	HK\$0.71	–	13,350,000	–	13,350,000
					15,200,500	13,350,000	–	28,550,500

Notes:

1. Upon acceptance of the options, HK\$10 is paid as consideration by each grantee to the Company for each grant.
2. The exercise price of the share options is subject to the adjustment in the event of any alteration in the capital structure of the Company.
3. Up to the date of approval of the Company's 2008 Annual Report and accounts, none of the share options granted on 26 January 2006, 10 November 2006 and 21 April 2008 has been exercised.
4. Mr. Tan Henry, Mr. Tan Cho Lung, Raymond and Mr. Tan Sunny are executive Directors of the Company.
5. Mr. Tan Willie is a non-executive Director of the Company and also the brother of the Directors mentioned in note 4 above.
6. Ms. Mok Siu Wan, Anne was appointed as an executive Director of the Company with effect from 3 June 2005.
7. Mr. Tan Sunny is the Chief Financial Officer of the Group and was appointed as an executive Director of the Company with effect from 26 May 2006.

Share option expenses charged are based on valuation determined using the Binomial Lattice Model. Share options granted were valued based on the following assumptions:

Date of grant	Option value (Note i)	Share price at date of grant	Subscription price	Expected volatility (Note ii)	Annual risk- free interest rate (Note iii)	Expected option life (Note iv)	Dividend yield (Note v)
26 January 2006	HK\$0.78	HK\$2.5	HK\$2.52	37%	4%	3-5 years	2.1%
10 November 2006	HK\$0.46	HK\$1.28	HK\$1.28	43%	3.8-3.9%	3-5 years	1.7%
21 April 2008	HK\$0.24	HK\$0.71	HK\$0.71	44.79%	1.26-2.99%	2.8-4.9 years	1.89%

- i. Since option pricing model requires input of highly subjective assumptions, fair values calculated are therefore inherently subjective and the model may not necessarily provide a reliable measure of share option expense.
- ii. Estimated volatility was based on the historical stock prices over 1-2 years preceding the grant date, expressed as an annualized rate and based on daily price changes.
- iii. The risk-free interest rate was based on the market yield of Hong Kong Exchange Fund notes with a remaining life corresponding to the expected option life.
- iv. The expected option life was determined by reference to certain empirical studies on suboptimal exercise behaviours.
- v. Dividend yield was based on the average dividend yield for the one year preceding the year of grant.

DIRECTORS AND DIRECTORS' SERVICE AGREEMENTS

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

Executive Directors

TAN Siu Lin
TAN Henry
TAN Cho Lung, Raymond
MOK Siu Wan, Anne
TAN Sunny

Non-executive Directors

TAN Willie
LU Chin Chu

Independent non-executive Directors

CHAN Henry
CHEUNG Siu Kee
SEING Nea Yie

REPORT OF THE DIRECTORS

PARTICULARS OF SERVICE AGREEMENTS

Except for Ms. Mok Siu Wan, Anne and Mr. Sunny Tan, each of the executive Directors has entered into a service agreement with the Company for a fixed period of three years commencing from 27 June 2007, and thereafter shall continue subject to termination by either the Company or the Director giving three months' notice in writing to the other party. Under the service agreements, the remuneration payable to each of them shall be a fixed monthly salary, with such increase as the Board may from time to time determine in its absolute discretion. In addition, they will each be entitled to a bonus equivalent to one month's salary on or around each Chinese New Year falling after the first anniversary of the commencement date. Each of them will also be entitled to all reasonable out-of-pocket expenses.

The respective monthly salaries of the executive Directors are set out below:

TAN Siu Lin	HK\$76,700
TAN Henry	HK\$198,000
TAN Cho Lung, Raymond	HK\$144,000
MOK Siu Wan, Anne	HK\$224,584
TAN Sunny	HK\$67,000

Pursuant to the letter of appointment dated 17 September 2007, Mr. Lu Chin Chu was appointed as a non-executive Director of the Company for a fixed period of three years commencing from 17 September 2007. Mr. Lu entitles to an annual director fee of HK\$120,000.

The directorship of Mr. Tan Willie was re-designated from an executive Director to a non-executive Director on 26 May 2006 with an annual salary of US\$150,000 pursuant to a service agreement for a fixed period of three years commencing from 26 May 2006.

Pursuant to the letter of re-appointment from the Company to each of Mr. Seing Nea Yie, Mr. Cheung Siu Kee and Mr. Henry Chan dated 28 January 2008, 4 April 2007 and 4 April 2007 respectively, the re-appointment of each of these independent non-executive Directors of the Company was for a term of another 3 years commencing from 28 January 2008, 16 April 2007 and 16 April 2007 respectively. Moreover, pursuant to written resolutions passed by the Remuneration Committee on 21 September 2006, each of the independent non-executive Directors shall be entitled to an annual fee of HK\$120,000 effective from 1 January 2007.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2008, the interests of the Directors and chief executives of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

Long position in the Shares

Name of Director	Capacity	No. of Shares	Percentage of interests in the Company
TAN Siu Lin	Trustee (note 1a)	680,743,000	68.59%
	Interest of controlled corporation (note 1b)	6,897,000	0.69%
TAN Henry	Beneficiary (notes 2 & 3)	614,250,000	61.89%
	Beneficial Owner (note 7)	450,000	0.05%
TAN Cho Lung, Raymond	Beneficiary (notes 2 & 5)	614,250,000	61.89%
	Beneficial Owner (notes 7 & 9)	749,000	0.08%
MOK Siu Wan, Anne	Beneficial Owner (notes 7)	3,200,000	0.32%
TAN Sunny	Beneficiary (notes 2 & 6)	614,250,000	61.89%
	Beneficial Owner (notes 7 & 10)	1,022,000	0.10%
TAN Willie	Beneficiary (notes 2 & 4)	614,250,000	61.89%
	Beneficial Owner (notes 7 & 8)	1,450,000	0.15%

Notes:

1. a. Mr. Tan Siu Lin is the settlor and trustee of each of the Tan Family Trust of 2004, the Pak Kim Lam Tan Trust of 2004, the HJ Trust, the WR5C Trust, the LS Trust, the RC Trust, the JL Trust and the ST Trust (collectively referred to as the "Trusts"). As the settlor and trustee of the Trusts, all of which are revocable discretionary trusts, Mr. Tan Siu Lin is deemed under Part XV of the SFO to be interested in the aggregate shareholdings of Tan Holdings Corporation ("Tan Holdings Corporation"), a company incorporated in Commonwealth of Northern Mariana Islands and Helmsley Enterprises Limited ("Helmsley"), a company incorporated in the Commonwealth of the Bahamas, held in the Company.
- b. Tan Siu Lin Foundation Limited, which is deemed to be controlled by Mr. Tan Siu Lin, holds 6,897,000 shares of the Company.
2. Pursuant to a shareholders' agreement dated 12 June 2004 and entered into between Mr. Tan Siu Lin as trustee for each of the Trusts and Helmsley, each of the Trusts have agreed to adhere to certain pre-emptive arrangements concerning the transfer of shares in Helmsley. For the purposes of Part XV of the SFO, each of the Trusts is therefore deemed to have effective voting power in respect of the interests in Helmsley in the Company.
3. Mr. Tan Henry is one of the beneficiaries of the HJ Trust, which is a revocable discretionary trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the HJ Trust in the Company.

REPORT OF THE DIRECTORS

4. Mr. Tan Willie is one of the beneficiaries of the WR5C Trust, which is a revocable discretionary trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of WR5C Trust in the Company.
5. Mr. Tan Cho Lung, Raymond is one of the beneficiaries of the RC Trust, which is a revocable discretionary trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the RC Trust in the Company.
6. Mr. Tan Sunny is one of the beneficiaries of the ST Trust, which is a revocable discretionary trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the ST Trust in the Company.
7. Mr. Tan Henry, Mr. Tan Cho Lung, Raymond, Ms. Mok Siu Wan, Anne, Mr. Tan Sunny and Mr. Tan Willie are grantees of the share options. Details of the share options granted to Directors are set out on pages 19 and 20 of this report.
8. A total of 1,150,000 Company Shares were acquired by an associate of Mr. Tan Willie between 2005 and 2008. He is therefore deemed under Part XV of the SFO to be interested in all of the 1,150,000 Company Shares acquired by his associate.
9. A total of 449,000 Company Shares were purchased by an associate of Mr. Tan Cho Lung, Raymond in 2006 and 2008. He is therefore deemed under Part XV of the SFO to be interested in all of the 449,000 shares acquired by his associate.
10. Mr. Tan Sunny acquired a total of 322,000 Company Shares in 2006.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

The Tan Private Group, comprising of Helmsley and Tan Holdings Corporation and their respective subsidiaries (other than the Group) and any other connected person of the Company (as defined in the Listing Rules), is engaged in a large variety of businesses, ranging from the distribution of office supplies, insurance, fisheries, technological support, property, advertising and printing, and production of packaging materials. Such operations are generally conducted with independent third parties not connected with the Company or any of its Directors, chief executives and substantial shareholders (such terms as defined under the Listing Rules). However, given the extensive scope of such non-apparel related business operations of the Company's substantial shareholders (with the same meaning ascribed thereto in the Listing Rules), Helmsley and Tan Holdings Corporation, the Group has a number of continuing transactions with the Tan Private Group.

As defined in the Listing Rules, members of the Tan Private Group are deemed associates and hence connected persons of the Company. Therefore, any transaction between any Group company and any member of the Tan Private Group that will continue following the Listing will constitute a connected transaction of the Company for the purposes of Chapter 14A of the Listing Rules, and which may be subject to the reporting, announcement and/or independent shareholders' approval requirements contained in Chapter 14A of the Listing Rules.

The following table is a summary of the historical amounts of the non-exempt continuing connected transactions of the Group pursuant to Chapter 14A of the Listing Rules for the years ended 31 December 2008 and 2007. Details of these connected transactions are more particularly described in the prospectus and in the relevant announcements released by the Company during the period covered, which are also posted in the Stock Exchange and the Company's websites.

Connected Party	Category	2008 US\$'000	2007 US\$'000
Tan Private Group	Travel services	202	315
	Provision of technological support services	2,117	1,980
	Lease agreements	1,376	1,439
	Administrative and support services	—	492
	Freight (shipping) services	—	6
	Transition services	—	1,030
	Sub-lease to office and warehouse space	409	273
	Freight services by the Group	348	340
	Shipping agency services by the Group	1,161	1,728
	Advance Payments	93	287
	Sub-contracting Services	3,459	1,405

The aforesaid continuing connected transaction has been reviewed by the Directors (including independent non-executive directors) of the Company.

The Directors (including independent non-executive directors) confirmed that the aforesaid connected transaction were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; (d) have not exceeded the relevant maximum amount capped in accordance to the waiver previously granted by the Stock Exchange.

In accordance with paragraph 14A.38 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Board of Directors engaged the auditors of the Company to perform certain factual finding procedures on the above continuing connected transaction on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings for the selected samples based on the agreed procedures to the Board of Directors.

Save as disclosed above:

- (i) no contracts of significance subsisted to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly at the end of the year or at any time during the year; and
- (ii) there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the register of substantial shareholders maintained pursuant to Section 336 of the SFO showed that other than the interest disclosed in "Directors' and Chief Executives' Interests in Shares", the following shareholders had notified the Company of their relevant interests in the issued capital of the Company.

Long position in the shares

Name of shareholder	Notes	Capacity	No. of ordinary Shares beneficially held	Approximate percentage of interests in the Company
Capital Glory Limited	(a)	Beneficial owner	614,250,000	61.89%
Helmsley	(a)	Interest of controlled corporation	614,250,000	61.89%
Tan Family Trust of 2004	(b)	Interest of controlled corporation	680,743,000	68.59%
Trusts (other than the Tan Family Trust of 2004)	(c)	Interest of controlled corporation	614,250,000	61.89%
Pou Chen Corporation		Interest of controlled corporation	89,100,000	8.98%
Wealthplus Holdings Limited		Interest of controlled corporation	89,100,000	8.98%
Yue Yuen Industrial (Holdings) Limited		Interest of controlled corporation	89,100,000	8.98%
Pou Hing Industrial Co. Ltd.		Interest of controlled corporation	89,100,000	8.98%
Great Pacific Investments Limited		Beneficial owner	89,100,000	8.98%
Tan Holdings Corporation		Interest of controlled corporation	60,750,000	6.12%
Union Bright Limited		Beneficial owner	60,750,000	6.12%
T. Rowe Price Associates, Inc. and its subsidiaries		Beneficial owner	59,992,000	6.04%

Notes:

- (a) Capital Glory Limited ("Capital Glory"), a company incorporated in the British Virgin Islands ("BVI") with limited liability, is a wholly owned subsidiary of Helmsley. Helmsley is therefore deemed to be interested in the interests of Capital Glory held in the Company.
- (b) The Tan Family Trust of 2004 was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin and his family members. The Tan Family Trust of 2004 is interested in the entire issued share capital of Tan Holdings Corporation and Wincare International Company Limited ("Wincare") and 30% of the issued share capital of Helmsley. For the purposes of Part XV of the SFO, it is deemed to be interested in the shares held by Tan Holdings Corporation, Wincare and Helmsley.
- (c) The Trusts (other than the Tan Family Trust of 2004) comprise the following:
- (i) The Pak Kim Lam Tan Trust of 2004 was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan and their family members.
 - (ii) The HJ Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mr. Tan Henry and the family members of Mr. Tan Henry.
 - (iii) The WR5C Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mr. Tan Willie and the family members of Mr. Tan Willie.
 - (iv) The LS Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mrs. Lily Tan Chou and the family members of Mrs. Lily Tan Chou.

- (v) The RC Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mr. Tan Cho Lung, Raymond and the family members of Mr. Tan Cho Lung, Raymond.
- (vi) The JL Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mr. Tan Cho Yee, Jerry and the family members of Mr. Tan Cho Yee, Jerry.
- (vii) The ST Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mr. Tan Sunny and the family members of Mr. Tan Sunny.

As the trustee of the Tan Family Trust of 2004 and the Trusts (other than the Tan Family Trust of 2004), collectively known as the "Trusts", all of which are revocable discretionary trusts, Mr. Tan Siu Lin is deemed under Part XV of the SFO to own in the aggregate shareholdings of Tan Holdings Corporation, Wincare International Company Limited and Helmsley held in the Company, representing 68.59% of the issued share capital of the Company.

Save as disclosed above, so far as is known to the Directors, there are no other person (not being a Director or chief executive of the Company) who has interest or a short position in the Shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be interested in 10% or more of the nominal values of any class of share capital carrying rights to vote in all circumstances at general meetings or any other members of the Group.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2008.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 61% (2007: 63%) of the total sales. The top five suppliers accounted for approximately 41% (2007: 21%) of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 25% (2007: 22%) of the total sales and the Group's largest supplier accounted for approximately 19% (2007: 11%) of the total purchases for the year. At no time during the year have the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. Corporate Governance Report is set out in pages 29 to 35 of this annual report.

POST BALANCE SHEET EVENT

Details of a significant event occurring after the balance sheet date are set out in note 37 to the financial statements.

REPORT OF THE DIRECTORS

AUDITORS

The financial statements for the year have been audited by Messrs. PricewaterhouseCoopers. A resolution will be submitted to the forthcoming Annual General Meeting of the Company to re-appoint Messrs. PricewaterhouseCoopers as the auditor of the Company.

On behalf of the Board

Tan Henry

Chief Executive Officer and Director

17 April 2009

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Luen Thai Holdings Limited together with its subsidiaries (the “Group” or “Luen Thai”) acknowledges the need and importance of corporate governance as one of the key elements in creating shareholders’ value. It is committed to ensuring high standards of corporate governance in the interests of shareholders and takes care to identify practices designed to achieve effective oversight, transparency and ethical behavior.

Throughout the year ended 31 December 2008, the Company was in compliance with the Code as set out in the Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

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

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules. After having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions by Directors.

BOARD OF DIRECTORS**The Board**

The Board is scheduled to meet at least four times a year to determine overall strategic direction and objectives and approve interim and annual results and other significant matters. In 2008, five Board meetings were held with an average attendance rate of 94%, details of which are presented below.

Board Members	Meetings Attended/Held	Average Attendance Rate
<i>Executive Directors</i>		
TAN Siu Lin (<i>Chairman of the Board</i>)	4/5	80%
TAN Henry*	5/5	100%
TAN Cho Lung, Raymond*	5/5	100%
MOK Siu Wan Anne	5/5	100%
TAN Sunny*	4/5	80%
<i>Non-executive Director</i>		
TAN Willie*	4/5	80%
LU Chin Chu	5/5	100%
<i>Independent non-executive Directors</i>		
CHAN Henry	5/5	100%
CHEUNG Siu Kee	5/5	100%
SEING Nea Yie	5/5	100%

* Son of TAN Siu Lin

CORPORATE GOVERNANCE REPORT

Directors are consulted to include any matter in the draft agenda. As part of our best practices, the agenda of Board meetings are finalized by the Chairman after taking into consideration any matters proposed by other Directors, including the independent non-executive Directors. The notice and agenda are generally released at least 14 days in advance. The Company's articles of association (the "Articles of Association") provide that a Board meeting shall be held in cases where a substantial shareholder or Director has a conflict of interest in a material matter, in which the substantial shareholder or Director is required to abstain from voting and shall not be counted in quorum. This is also in conformity with the Code requirements.

The Company Secretary, Mr. Chiu Chi Cheung, is responsible for taking minutes of meetings of the Board and the Committees under the Board ("Board Committees"). Draft and final minutes are sent to all Directors for comments within a reasonable time. A final draft of each minutes of meetings is made available for inspection by Directors/Committee Members.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and advises the Board on corporate governance and compliance matters. They are also encouraged to take independent professional advice at the Company's expense in performance of their duties, if necessary. If a substantial shareholder or a director has a conflict of interest in a matter to be considered material by the Board, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent Board committee will be set up to deal with the matter. Furthermore, all the Directors are covered by the Directors' & Officers' Liability Insurance, which is also part of our best practices.

Chairman and CEO

During the year 2008 and as of the date of this report, Mr. Tan Siu Lin is the Chairman of the Board and Mr. Tan Henry is the Chief Executive Officer of the Company. Mr. Tan Henry is the son of Mr. Tan Siu Lin.

The Chairman of the Board is responsible for overseeing the strategic planning and leadership of Luen Thai. The Chief Executive Officer, on the other hand, is responsible for the strategic development and maintaining the Group's relationship with outside companies of the Group. Senior management is responsible for effective implementation of the Board's decisions and the day-to-day operations of the Company.

The Chairman ensures that the entire Board members are properly briefed on issues at the Board meetings and receive adequate and reliable information on a timely basis.

Composition

The board of directors (the "Board") comprises five executive Directors (including the Chairman of the Board), two non-executive Directors and three independent non-executive Directors. Each of the Directors has the relevant experience, competencies and skills appropriate to the requirements of the business of the Group, which are more particularly described in pages 13 to 15 of this Annual Report. The independent non-executive Directors are expressly identified as such in all corporate communications that disclose the names of directors of the Company.

Appointments, re-election and removal

The Board as a whole is responsible for the procedure agreeing to the appointment of its own members and for nominating them for election by the shareholders on first appointment and thereafter at regular interval of rotation. Pursuant to the provisions of the Articles of Association, the Directors (except for the Chairman of the Board) are subject to retirement by rotation at least once every three years and new Directors are required to submit themselves for re-election at the first general meeting of the Company following their appointment. The Company has not established any nomination committee and is not currently considering establishing the same owing to the small size of the Board of the Company. The Chairman of the Board is mainly responsible for identifying appropriate candidates

to fill the casual vacancy whenever it arises or to add additional members as and when required. The Chairman will propose the qualified candidate(s) to the Board for consideration. The Board will approve the appointment based on the suitability, qualification of the candidate.

Responsibilities of Directors

Upon acceptance of appointment, a new Director is provided with sufficient orientation package, including introduction to Group activities (when necessary), induction into their responsibilities and duties, and other regulatory requirements, to ensure that he/she has a proper understanding of the business and his/her responsibilities as a Director of the Company. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors.

Each of the Directors is required to give sufficient time and attention to the affairs of the Company. Based on the meetings of the Board and the Board Committee, a very satisfactory average attendance rates were recorded, as also presented in pages 29, 32 and 33 of the Annual Report.

Independent non-executive Directors

The roles of the independent non-executive Directors include the following:

- (i) provision of independent judgement at the Board meeting;
- (ii) take the lead where potential conflicts of interests arise;
- (iii) serve on committees if invited; and
- (iv) scrutinize the performance of the Group as necessary.

Pursuant to the letter of re-appointment from the Company to each of Mr. Seing Nea Yie, Mr. Cheung Siu Kee and Mr. Henry Chan dated 28 January 2008, 4 April 2007 and 4 April 2007 respectively, the re-appointment of each of these independent non-executive Directors of the Company was for a term of another 3 years commencing from 28 January 2008, 16 April 2007 and 16 April 2007 respectively. Moreover, pursuant to written resolutions passed by the Remuneration Committee on 21 September 2006, each of the independent non-executive Directors shall be entitled to an annual fee of HK\$120,000 effective from 1 January 2007.

The independent non-executive Directors of the Company and their immediate family receive no payment from the Company or its subsidiaries (except the Director fee). No family member of any independent non-executive Directors is employed as an executive officer of the Company or its subsidiaries, or has been so in the past three years. The independent non-executive Directors are subject to retirement and re-election at the Annual General Meeting in accordance with the provisions of the Articles of Association. Each independent non-executive Director has provided a confirmation of his independence with reference to the independence guidelines as set out in the Listing Rules.

Supply of and access to information

In respect of regular Board meetings, an agenda and accompanying board papers of the meeting are sent to all directors at least 3 days before the intended date of a meeting.

The management has the obligation to supply the Board and the various committees with adequate information in a timely manner to enable the members to make informed decisions. All Board papers and minutes are also made available for inspection by the Board and its Committees.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Remuneration Committee was set up with the responsibility of recommending to the Board the remuneration policy of all the Directors and the senior management, which was discussed in more detail in its written Terms of Reference (the "RC Terms of Reference"), which are available on the Company's website: <http://www.luenthai.com>. The Remuneration Committee comprises one executive Director and three independent non-executive Directors, as set out below.

Independent non-executive Directors

CHAN Henry

CHEUNG Siu Kee

SEING Nea Yie, *Committee Chairman*

Executive Director

TAN Henry

The Committee Chairman is required to report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

A meeting of the Remuneration Committee is required to be held at least once a year to coincide with key dates within the financial reporting and audit cycle. In 2008, a perfect (100%) attendance rate for each Committee member was recorded for two meetings held by the Remuneration Committee.

The Remuneration Committee is authorized to investigate any matter within the RC Terms of Reference and seek any information it requires from any employee and obtain outside legal or other independent professional advice at the cost of the Company if it considers necessary. The Remuneration Committee has reviewed the compensation of the directors and senior executives for 2008.

In 2008, total Directors' remuneration amounted to approximately US\$2,275,000 (2007: US\$2,070,000). The executive Directors and senior management's compensation, including the long-term incentive, shall be based on the corporate and individual performance.

ACCOUNTABILITY AND AUDIT**Financial reporting**

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2008, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the financial statements on the going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

Internal Controls

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal controls system to safeguard the interests of the shareholders and the Group's assets. The Internal Audit Team (the "IA Team") was established in May 2005 with an Internal Audit Charter approved and adopted by the Audit Committee. The IA Team is an independent unit established within the Group, which provides the Board an independent appraisal of the Group's systems of internal controls to evaluate the adequacy and effectiveness of the controls established to safeguard shareholders' investment and the Group's assets. The head of the internal audit has a direct reporting line to the Audit Committee.

The Directors are responsible to consider the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget.

Audit Committee

The Audit Committee was established with written terms of reference that sets out the authorities and duties of the Committee adopted by the Board. It comprises three independent non-executive Directors, none of which is a former partner of the external auditors.

The Audit Committee's principal duties include reviewing the nature and scope of the statutory audits, interim and annual financial statements of the Group, and the adequacy and effectiveness of the accounting and financial controls of the Group. It shall meet at least three times a year and on an ad hoc/as-needed basis. It meets with the external auditors and the management of the Group, to ensure that the audit findings are addressed properly. The Audit Committee is authorized to take independent professional advice at Company's expense.

The Audit Committee has reviewed the annual and interim results of 2008 and was content that the accounting policies of the Group are in accordance with the generally accepted accounting practices in Hong Kong.

Also, based on the assessments made by the IA Team and up to the date of approval of the Company's 2008 Annual Report and financial statements, the Audit Committee and the Directors are satisfied that:

- (i) the internal controls and accounting systems of the Group have been in place and function effectively and are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorization and the financial statements are reliable for publication; and
- (ii) there is an on-going process in place for identifying, evaluating and managing significant risks faced by the Group.

The Audit Committee recommended to the Board that, subject to the shareholders' approval at the forthcoming annual general meeting of the Company, Messrs. PricewaterhouseCoopers be re-appointed as the external auditors of the Group for 2009.

Attendance for the three meetings held by the Audit Committee during the year is set out below:

Audit Committee Members	Meetings Attended/Held
CHAN Henry	3/3
CHEUNG Siu Kee	3/3
SEING Nea Yie	3/3

The financial statements for the year have been audited by PricewaterhouseCoopers. During the year, remuneration of approximately US\$810,000 was payable to PricewaterhouseCoopers for the provision of audit services. In addition, approximately US\$562,000 was payable to PricewaterhouseCoopers for other non-audit services. The non-audit services mainly consist of tax compliance, special audit and interim review. The fees for audit and non-audit services for subsidiaries not performed by PricewaterhouseCoopers amounted to approximately US\$117,000 and US\$45,000, respectively.

CORPORATE GOVERNANCE REPORT

Communication with Shareholders

Communication with shareholders is given high priority. Extensive information about the Group's activities is provided in the Annual Report and the Interim Report. The Company's website provides regularly updated Group information to shareholders. Luen Thai also arranges regular site visit for investors and media. Enquiries on matters relating to shareholdings and the business of the Group are welcome, and are dealt with in an informative and timely manner. The Group encourages all shareholders to attend Annual General Meeting.

SHAREHOLDERS' INFORMATION**Major Shareholders and Spread of Shareholders**

The Company has 992,500,000 shares in issue, each with a par value of US\$0.01. As at 31 December 2008, the major shareholders of the Company were as follows:

Beneficial Shareholders	Number of Ordinary Shares Owned	Percentage
Capital Glory Limited (notes 1 & 2)	614,250,000	61.89%
Union Bright Limited (notes 1 & 3)	60,750,000	6.12%
Other Shareholders (notes 1, 4, 5, 6 & 7)	14,561,000	1.47%
	689,561,000	69.48%
Public Shareholders		
Yue Yuen Industrials (Holdings) Limited	89,100,000	8.98%
T. Rowe Price Associates, Inc. and its subsidiaries	59,992,000	6.04%
Other Shareholders	153,847,000	15.50%
Total	992,500,000	100.00%

Notes:

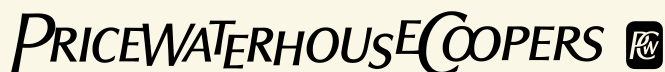
- Parties acting in concert.
- Capital Glory is a wholly owned subsidiary of Helmsley, which is in turn owned by a number of trusts for the benefits of the Tan family.
- Union Bright Limited is a wholly owned subsidiary of Tan Holdings Corporation, which is in turn wholly-owned by the Tan Family Trust.
- Tan Family Trust of 2004 is interested in the entire issued share capital of Wincare International Company Limited which holds 5,743,000 Company Shares.
- Tan Siu Lin Foundation Limited, which is deemed to be controlled by Tan Siu Lin, holds 6,897,000 Company Shares.

6. A total of 449,000 and 1,150,000 shares of the Company ("Company Shares") were purchased by associates of Mr. Tan Cho Lung, Raymond and Mr. Tan Willie, respectively, between 2005 and 2008. Mr. Tan Willie and Mr. Tan Cho Lung, Raymond are therefore deemed under Part XV of the SFO to be interested in the total Company Shares purchased by their respective associates.
7. Mr. Tan Sunny, in his personal capacity, purchased a total of 322,000 Company Shares in 2006.

Share Performance

The Company's share price was HK\$0.57 as at 31 December 2008 and its market capitalization was HK\$566 million. In 2008, the highest trading price for the Company share was HK\$1.05 on 4 January and 7 January, and the lowest was HK\$0.44 on 3 November and 4 November.

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道會計師事務所

PricewaterhouseCoopers
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Central, Hong Kong
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To the shareholders of Luen Thai Holdings Limited

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Luen Thai Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 38 to 111, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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



INDEPENDENT AUDITOR'S REPORT

Opinion

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 17 April 2009



CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	2008 US\$'000	2007 US\$'000
ASSETS			
Non-current assets			
Leasehold land and land use rights	6	10,644	4,476
Property, plant and equipment	7	117,679	92,578
Intangible assets	8	68,870	65,004
Interests in associated companies	10	377	382
Interests in jointly controlled entities	11	9,531	6,745
Deferred income tax assets	12	230	759
Other non-current assets		4,955	4,295
		212,286	174,239
Current assets			
Inventories	13	76,208	65,245
Trade and bills receivables	14	108,351	100,065
Amounts due from related companies	35	4,143	3,175
Amounts due from associated companies and jointly controlled entities	35	1,584	5,127
Deposits, prepayments and other receivables		19,876	11,086
Pledged bank deposits	15	1,509	1,519
Cash and bank balances	15	117,839	96,668
		329,510	282,885
Total assets		541,796	457,124
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	16	9,925	9,925
Other reserves	17	101,340	108,052
Retained earnings			
— Proposed final dividend		1,439	1,727
— Others		108,858	100,582
		221,562	220,286
Minority interest		24,898	9,794
Total equity		246,460	230,080

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 31 December 2008

	Note	2008 US\$'000	2007 US\$'000
LIABILITIES			
Non-current liabilities			
Bank borrowings	18	33,259	33,750
Loan from a minority shareholder of a subsidiary	35	3,097	—
Retirement benefit obligations	19	2,431	3,135
Deferred income tax liabilities	12	5,075	3,769
Consideration payable and other long-term liabilities	20	33,959	26,673
		77,821	67,327
Current liabilities			
Trade and bills payables	21	66,196	55,755
Other payables and accruals		81,039	69,323
Amounts due to related companies	35	817	2,837
Amounts due to associated companies and jointly controlled entities	35	3,953	1,647
Borrowings	18	50,281	18,408
Derivative financial instruments	22	2,199	—
Current income tax liabilities		13,030	11,747
		217,515	159,717
Total liabilities		295,336	227,044
Total equity and liabilities		541,796	457,124
Net current assets		111,995	123,168
Total assets less current liabilities		324,281	297,407

TAN SIU LIN
Director

TAN HENRY
Director

The notes on pages 44 to 111 are an integral part of these consolidated financial statements.

BALANCE SHEET

As at 31 December 2008

	Note	2008 US\$'000	2007 US\$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	9	200,326	199,626
Current assets			
Deposits, prepayments and other receivables		1	23
Cash and bank balances	15	435	167
Amount due from a subsidiary	9	2,500	2,500
		2,936	2,690
Total assets		203,262	202,316
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	16	9,925	9,925
Other reserves	17	190,089	189,664
Retained earnings			
— Proposed final dividend		1,439	1,727
— Others		1,492	741
Total equity		202,945	202,057
LIABILITIES			
Current liabilities			
Other payables and accruals		317	259
Total equity and liabilities		203,262	202,316
Net current assets		2,619	2,431
Total assets less current liabilities		202,945	202,057

TAN SIU LIN
Director

TAN HENRY
Director

The notes on pages 44 to 111 are an integral part of this financial statement.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

(By function of expense)

	Note	2008 US\$'000	2007 US\$'000
Revenue	23	832,002	800,877
Cost of sales	25	(677,713)	(645,982)
Gross profit		154,289	154,895
Other gains — net	24	2,713	2,259
Selling and distribution expenses	25	(23,306)	(26,158)
General and administrative expenses	25	(110,584)	(107,001)
Operating profit		23,112	23,995
Finance income	27	2,087	3,601
Finance costs	27	(4,609)	(4,670)
Share of (losses)/profits of associated companies		(16)	95
Share of profits of jointly controlled entities		1,386	1,592
Profit before income tax		21,960	24,613
Income tax credit/(expense)	28	1,213	(4,208)
Profit for the year		23,173	20,405
Attributable to:			
Equity holders of the Company		11,829	12,515
Minority interest		11,344	7,890
		23,173	20,405
Earnings per share for profit attributable to the equity holders of the Company, expressed in US cents per share	30		
— Basic		1.2	1.3
— Diluted		1.2	1.3
Dividends	31	3,553	3,762

The notes on pages 44 to 111 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company					Minority interest US\$'000	Total equity US\$'000
	Share capital US\$'000	Share premium US\$'000	Other reserves US\$'000	Retained earnings US\$'000	Total US\$'000		
Balance at 1 January 2007	9,925	116,998	(18,370)	90,178	198,731	15,502	214,233
Net income recognized directly in equity – currency translation differences	–	–	4,550	–	4,550	–	4,550
Profit for the year	–	–	–	12,515	12,515	7,890	20,405
Total recognized income for 2007	–	–	4,550	12,515	17,065	7,890	24,955
Dividends paid	–	–	–	(2,035)	(2,035)	–	(2,035)
Purchase of additional interests in subsidiaries from minority shareholders	–	–	–	–	–	(4,142)	(4,142)
Derecognition of financial liabilities upon acquisition of minority interest	–	–	4,311	1,651	5,962	–	5,962
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	(9,456)	(9,456)
Share based compensation expense	–	–	563	–	563	–	563
	–	–	4,874	(384)	4,490	(13,598)	(9,108)
Balance at 31 December 2007	9,925	116,998	(8,946)	102,309	220,286	9,794	230,080
Balance at 1 January 2008	9,925	116,998	(8,946)	102,309	220,286	9,794	230,080
Net income recognized directly in equity – currency translation differences	–	–	3,985	–	3,985	–	3,985
Profit for the year	–	–	–	11,829	11,829	11,344	23,173
Total recognized income for 2008	–	–	3,985	11,829	15,814	11,344	27,158
Dividends paid	–	–	–	(3,841)	(3,841)	–	(3,841)
Recognition of financial liability arisen from acquisition of a subsidiary (Note 17)	–	–	(11,122)	–	(11,122)	–	(11,122)
Acquisition of subsidiaries (Note 33)	–	–	–	–	–	12,566	12,566
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	(8,806)	(8,806)
Share based compensation expense	–	–	425	–	425	–	425
	–	–	(10,697)	(3,841)	(14,538)	3,760	(10,778)
Balance at 31 December 2008	9,925	116,998	(15,658)	110,297	221,562	24,898	246,460

The notes on pages 44 to 111 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Note	2008 US\$'000	2007 US\$'000
Cash flow from operating activities			
Cash generated from operations	32	66,659	57,146
Interest paid		(2,698)	(3,684)
Income tax paid		(2,181)	(3,116)
Overseas taxation paid		(73)	(2,338)
Net cash generated from operating activities		61,707	48,008
Cash flow from investing activities			
Purchase of property, plant and equipment		(10,400)	(13,695)
Purchase of financial assets at fair value though profit and loss		—	122
Increase in bank deposits maturing beyond three months		(3,593)	—
Decrease/(increase) in pledged bank deposits		10	(838)
Proceeds from disposal of property, plant and equipment		1,321	839
Acquisition of a subsidiary, net of cash acquired	33	(13,130)	—
Payment for purchase of additional interests in subsidiaries from minority shareholders		—	(9,817)
Payment of consideration payable for acquisition of a subsidiary		(14,908)	(7,400)
Increase in investment in jointly controlled entities		(227)	(649)
Increase in long-term loans to a jointly controlled entity		(1,173)	(2,459)
Interest received		2,087	3,601
Increase in other non-current assets		(660)	(668)
Net cash used in investing activities		(40,673)	(30,964)
Net cash generated before financing activities		21,034	17,044
Cash flows from financing activities			
Increase/(decrease) in trust receipts bank loans and collateralized borrowings		3,355	(8,140)
Increase in bank loans		7,359	—
Repayment of bank loans		(4,500)	(4,900)
Dividends paid to the Company's shareholders		(3,841)	(2,035)
Dividends paid to minority shareholders of subsidiaries		(8,806)	(9,456)
Net cash used in financing activities		(6,433)	(24,531)
Increase/(decrease) in cash and cash equivalents		14,601	(7,487)
Cash and cash equivalents at 1 January		90,805	96,977
Effect of foreign exchange rate changes		1,083	1,315
Cash and cash equivalents at 31 December	15	106,489	90,805

The notes on pages 44 to 111 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Luen Thai Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the manufacturing and trading of garment, textile products and accessories and the provision of freight forwarding and logistics services.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is 5/F, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of United States dollars (US\$’000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 17 April 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of Luen Thai Holdings Limited have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

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

(a) *Amendments and interpretations effective in 2008*

- HKAS 39, ‘Financial instruments: Recognition and measurement’, amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, ‘Financial instruments: Disclosures’, introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group’s financial statements, as the Group has not reclassified any financial assets.
- HK(IFRIC) — Int 11, ‘HKFRS 2 – Group and treasury share transactions’, provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent’s shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group’s financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) *Amendments and interpretations effective in 2008 (continued)*

- HK(IFRIC) – Int 14, ‘HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction’, provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group’s financial statements, as the Group has a pension deficit and is not subject to any minimum funding requirements.

(b) *Interpretations effective in 2008 but not relevant*

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

- HK(IFRIC) – Int 12, ‘Service Concession arrangements’

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

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

- HKAS 1 (Revised), ‘Presentation of financial statements’ (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009. It is likely that both the consolidated income statement and statement of comprehensive income will be presented as performance statements.
- HKAS 23 (Revised), ‘Borrowing costs’ (effective from 1 January 2009). The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) retrospectively from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.1 Basis of preparation (continued)**

(c) *Standards, amendments and improvements to existing standards that are not yet effective and have not been early adopted by the Group (continued)*

- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognized in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.
- HKFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009, but it is not expected to have a material impact on the Group's financial statements.
- HKFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.
- HKFRS 8, 'Operating segments', replaces HKAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. The Group will apply HKFRS 8 from 1 January 2009. It is likely that the segments information disclosures will be changed and the comparatives for 2008 will also be restated.
- the HKICPA has issued Improvements to HKFRSs which sets out 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, primarily with a view to removing inconsistencies and clarifying wordings. Except for the amendment to HKFRS 5, which is effective for the financial periods on or after 1 July 2009, other amendments are effective for financial periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(d) *Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations*

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

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective from 1 July 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply HKAS 27 (Amendment) prospectively from 1 January 2010 in its separate financial statements. This amendment is not relevant to the Group.
- HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' — 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. This amendment is not relevant to the Group.
- HKAS 39 (Amendment) 'Financial instruments: Recognition and measurement' — 'Eligible hedged items' (effective from 1 July 2009). This amendment is to clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation shall be applied in particular situations.
- HK(IFRIC) — Int 13, 'Customer loyalty programmes' (effective from 1 July 2008). HK(IFRIC) — Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) — Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.
- HK(IFRIC) — Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009) supercedes HK Int-3, 'Revenue — Pre-completion contracts for the sale of development properties'. HK(IFRIC) — Int 15 clarifies whether HKAS 18, 'Revenue' or IAS 11, 'Construction contracts' should be applied to particular transactions. It is likely to result in HKAS 18 being applied to a wider range of transactions. HK(IFRIC) — Int 15 is not relevant to the Group's operations as all revenue transactions are accounted for under HKAS 18 and not HKAS 11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.1 Basis of preparation (continued)**

(d) *Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations (continued)*

- HK(IFRIC) – Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). HK(IFRIC) – Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of HKAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. It is not expected to have a material impact on the Group's financial statements.
- HK(IFRIC) – Int 17 – 'Distributions of non-cash assets to owners' (effective from 1 July 2009). This interpretation applies to non-reciprocal distributions of non-cash assets (or with a cash alternative) except for common control transactions and clarifies that:
 - a dividend payable shall be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity.
 - the dividend payable shall be measured at the fair value of the assets to be distributed.
 - the difference between the dividend paid and the carrying amount of the assets distributed shall be recognized in profit or loss.

HK(IFRIC) – Int 17 is not relevant to the Group's operations because none of the Group's compliance have been distributed non-cash assets to owners.

- HK(IFRIC) – Int 18 – 'Transfers of Assets from Customers' (effective for transfers on or after 1 July 2009). It clarifies that an asset received from a customer should be recognized initially at fair value, and the related income should be recognized immediately or if there is a future service obligation, over the relevant service period. This interpretation also applies to cash received from a customer for the acquisition or construction of an asset. HK(IFRIC) – Int 18 is not relevant to the Group's operations because none of the Group's companies have received any assets nor cash from customers.

2.2 Consolidation

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

(a) *Subsidiaries*

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(a) *Subsidiaries (continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.7). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) *Transactions with minority interests*

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

(c) *Associates*

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.2 Consolidation (continued)***(d) Joint ventures*

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated income statement includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

2.3 Foreign currency translation*(a) Functional and presentation currency*

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss.

(c) Group companies

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Foreign currency translation (continued)

(c) *Group companies (continued)*

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

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

2.4 Segment reporting

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

2.5 Property, plant and equipment

The property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Leasehold improvements	5–15 years or over the unexpired period of the lease, whichever is shorter
Plant and machinery	5–10 years
Furniture, fixtures and equipment	3–5 years
Motor vehicles	3–5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.6 Construction-in-progress**

Construction-in-progress represents buildings, plants and machinery under construction and pending installation and is stated at cost. Cost includes the costs of construction of buildings, the costs of plant and machinery and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing, if any. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to other property, plant and equipment and depreciated in accordance with the policy as stated in Note 2.5 in this Section.

2.7 Intangible assets*(a) Goodwill*

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

The Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized exceeds the cost of the business combination is recognized immediately in the consolidated income statement.

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

(b) Customer relationships

Customer relationships have definite useful lives and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of other intangible assets over its estimated useful life of 3 to 15 years.

2.8 Leasehold land and land use right

Land use rights are stated at less accumulated amortization and impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 10 to 50 years. Amortization of land use rights is calculated on a straight-line basis over the period of the land use right.

2.9 Impairment of investments in subsidiaries, associated companies, jointly controlled entities and non-financial assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivable. The classification depends on the purpose for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' in the balance sheet (Notes 2.12).

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the consolidated income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'other (losses)/gains — net', in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the consolidated income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.11 Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work-in-progress comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade and other receivables

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

2.13 Cash and cash equivalents

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

2.14 Share capital

Ordinary shares are classified as equity.

2.15 Financial liabilities*(i) Financial guarantee contracts*

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognized at fair value on the date the guarantee was given. Subsequently, the liabilities under such guarantees are measured at the higher of the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date and the initial measurement, less amortization calculated to recognize in the income statement the fee income earned on a straight line basis over the life of the guarantee. These estimates are determined based on experience of similar transactions and debtors' payment history, supplemented by the judgement of management of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Financial liabilities (continued)

- (ii) *Financial liabilities arising from the contractual obligation for the Group to purchase its own equity instruments*

A contract that contains an obligation for the Group to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount. Such liability is classified as other payable and accruals or other long-term liabilities in the consolidated balance sheet. Such financial liability is initially recognized at fair value which is the present value of the redemption amount and is reclassified from equity. Subsequently, the financial liability is carried at amortized cost using the effective interest method. The accretion of the discount on the financial liability and any adjustments to estimated amounts of the final redemption amount are recognized as a finance charge in the consolidated income statement. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity.

- (iii) *Trade and other payables*

Trade and other payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

2.16 Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair values. Changes in the fair value of these derivative instruments are recognized immediately in the consolidated income statement within 'other gains/(losses) – net'.

2.17 Borrowings

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

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

2.18 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax assets is realized or the deferred income tax liability is settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.18 Current and deferred income tax (continued)**

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

2.19 Employee benefits*(a) Pension obligations*

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the present value of the defined benefit obligation are expensed or credited to the income over the employees' expected average remaining working lives.

Past-service costs are recognized immediately as income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Employee benefits (continued)

(b) *Long service payments*

The Group's net obligation in respect of long service payments to its employees upon the termination of their employment or retirement when the employee fulfills certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The obligation is calculated using the projected unit credit method, discounted to present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The discount rate is the yield at balance sheet date on high quality corporate bonds which have terms to maturity approximating the terms of the related liability.

(c) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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

(d) *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.20 Provisions

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.21 Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognized as a provision.

2.22 Revenue recognition

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

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

Revenue is recognized as follows:

(i) Sale of goods

Sale of goods is recognized when products have been delivered to its customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(ii) Freight forwarding and logistics services income

Freight forwarding and logistics services income are recognized when services are rendered.

(iii) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(iv) Rental income

Rental income is recognized on a straight-line basis over the lease periods.

(v) Management and commission income

Management and commission income is recognized when services are rendered.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Leases

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

2.24 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The ongoing global financial crisis has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have led to bank failures and bank rescues in the United States of America ("USA"), Western Europe and elsewhere. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

Risk management is carried out by a central treasury department (Group Treasury). Group Treasury identifies and evaluates financial risks in close co-operation with the Group's operating units.

(a) Market risk

(1) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Most of the Group's operating activities are denominated in United State dollar ("US\$"), Hong Kong dollar ("HK\$"), Euro, Philippine Peso ("Peso") and Chinese Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

To manage the foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, the Group enters into foreign exchange forward contracts with external financial institutions to partially hedge against such foreign exchange risk. The Group also mitigates this risk by maintaining HK\$, Euro, Peso and RMB bank accounts which are used by the Group to pay for the transactions denominated in these currencies.

At 31 December 2008, if US\$ had weakened/strengthened by 10% against the Euro with all other variables held constant, post-tax profit for the year would have been US\$1,626,000 (2007: US\$715,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated trade receivables and payables, and cash and bank balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (CONTINUED)**3.1 Financial risk factors (continued)****(a) Market risk (continued)***(1) Foreign exchange risk (continued)*

At 31 December 2008, if US\$ had weakened/strengthened by 5% against the RMB with all other variables held constant, post-tax profit for the year would have been US\$131,000 (2007: US\$781,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of RMB-denominated trade payables and cash and bank balances.

At 31 December 2008, if US\$ had weakened/strengthened by 13% against the Peso with all other variables held constant, post-tax profit for the year would have been US\$206,000 (2007: US\$12,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Peso-denominated trade payables and cash and bank balances.

The Group also has certain target redemption forward contracts as at 31 December 2008. Please refer to Note 22 for details.

At 31 December 2008, if US\$ had strengthened by 13% against Peso with all other variables held constant, the Group's post-tax profit would decrease by US\$1,774,000 (2007: Nil) in connection with these outstanding target redemption forward contracts.

At 31 December 2008, if US\$ had weakened by 13% against Peso with all other variables held constant, the Group's post-tax profit would increase by US\$341,000 (2007: Nil) in connection with these outstanding target redemption forward contracts.

(2) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except for certain bank deposits, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from bank borrowings. As at 31 December 2008, borrowings were primarily at floating rates. The Group generally has not used financial derivatives to hedge its exposure to interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift.

At 31 December 2008, if interest rates on borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been US\$700,000 (2007: US\$597,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk

Credit risk of the Group mainly arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers such as trade receivables, amounts due from related companies, associated companies, jointly controlled entities and other receivables. The carrying amount of these balances in the balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets.

Majority of the Group's bank deposits are placed in those banks and financial institutions which are independently rated with a high credit rating. Management does not expect any losses from non-performance by these banks and financial institutions as they have no default history in the past.

Under the ongoing global financial crisis, debtors of the Group may be affected by the unfavorable economic conditions and the lower liquidity situation, which could in turn impact their ability to repay the amounts owed. Deterioration operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of receivables. To the extent that information is available, management has properly reflected revised estimate of expected future cash flows in their impairment assessments.

The credit quality of the customers is assessed based on its financial position, past experience and other factors, The Group has policies in place to ensure that sales of products are made to customers with appropriate credit histories.

As at 31 December 2008, the Group had a concentration of credit risk given that the top 5 customers account for 61% (2007: 63%) of the Group's total year end trade receivable balance. However, the Group does not believe that the credit risk in relation to these customers is significant because they have no history of default in recent years.

The Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and management is of the opinion that provision for uncollectible receivables is not necessary.

Management considers the credit risk on amounts due from related companies, associated companies and jointly controlled entities, and other receivables is minimal after considering the financial conditions of these entities. Management has performed assessment over the recoverability of these balances and management does not expect any losses from non-performance by these companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (CONTINUED)**3.1 Financial risk factors (continued)****(c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of available credit facilities. The directors aim to maintain flexibility in funding by keeping credit lines available.

Management monitors rolling forecasts of the Group's liquidity reserve which comprises undrawn borrowing facility (Note 18) and cash and cash equivalents (Note 15) on the basis of expected cash flow.

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

	Less than 1 year US\$'000	Between 1 and 2 years US\$'000	Between 2 and 5 years US\$'000	Over 5 years US\$'000	Total US\$'000
Group					
At 31 December 2008					
Bank borrowings	51,870	8,786	14,905	12,313	87,874
Loan from a minority shareholder of a subsidiary	98	98	3,195	—	3,391
Trade and other payables	141,791	—	—	—	141,791
Amounts due to related companies	817	—	—	—	817
Amounts due to associated companies and jointly controlled entities	3,953	—	—	—	3,953
Derivative financial instruments	570	—	—	—	570
Consideration payable and long-term liabilities	5,444	—	38,018	—	43,462
	204,543	8,884	56,118	12,313	281,858
At 31 December 2007					
Bank borrowings	19,308	4,731	15,787	19,387	59,213
Trade and other payables	116,802	—	—	—	116,802
Amounts due to related companies	2,837	—	—	—	2,837
Amounts due to associated companies and jointly controlled entities	1,647	—	—	—	1,647
Consideration payable and long-term liabilities	8,276	5,758	12,519	13,596	40,149
	148,870	10,489	28,306	32,983	220,648

As at 31 December 2008 and 2007, all financial liabilities of the Company are due within one year and equal their carrying balances as the impact of discounting is not significant.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year US\$'000	Between 1 and 2 years US\$'000	Between 2 and 5 years US\$'000	Over 5 years US\$'000
At 31 December 2008				
Target redemption forward contracts				
Outflow (Note a)	10,000	—	—	—
Inflow (Note a)	9,295	—	—	—
Currency forward contracts				
Outflow (Note b)	6,311	—	—	—
Inflow (Note b)	5,725	—	—	—

There was no target redemption forward contracts and currency forward contracts outstanding as at 31 December 2007.

Note a: Under the contracts, the Group will receive Peso against delivery of US\$. The maximum deliverable outstanding amount to the Group under these contracts is Peso450,800,000 (equivalent to United States dollar of approximately US\$9,295,000 using the exchange rate as of 31 December 2008) and a maximum amount of US\$10,000,000 to be delivered out by the Group. It is deliverable in instalments up to May 2009. For details, please refer to Note 22.

Note b: Under the contracts, the Group will receive US\$ against delivery of Euro. The notional amount of these contracts are to sell Euro4,518,000 (equivalent to US\$ of approximately US\$6,311,000 using the exchange rate as at 31 December 2008) for US\$5,725,000. For details, please refer to Note 22.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other shareholders and to maintain an optimal capital structure to reduce the cost of capital.

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

The Group monitors capital by maintaining a net cash position throughout the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (CONTINUED)**3.3 Fair value estimation**

The fair value of financial assets traded in active markets such as publicly traded securities is based on quoted market prices at balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair values of the financial assets and derivative financial instruments not traded in an active market are determined by counterparty financial institutions using a variety of valuation methodologies, models and assumptions mainly based on market conditions existing at each balance sheet date.

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be required. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Please refer to Note 28 for details.

(b) Useful lives of property, plant and equipment and intangible assets (other than goodwill)

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

(c) Impairment of property, plant and equipment, leasehold land and land use rights and intangible assets (other than goodwill)

Property, plant and equipment, leasehold land and land use rights and intangible assets (other than goodwill) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on fair value less cost to sell calculations or market valuations. These calculations require the use of judgements and estimates.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Impairment of property, plant and equipment, leasehold land and land use rights and intangible assets (other than goodwill) (continued)

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continue use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

(d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on fair value less cost to sell calculations. The fair value less cost to sell calculations primarily use cash flow projections based on one to two financial budgets approved by management and estimated terminal value at the end of the one to two-year periods. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budgets. Key assumptions include the growth rates and selection of discount rates to reflect the risks involved. Management prepares the financial budgets reflecting actual and prior year performance and market development expectations. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions could affect these cash flow projections and therefore the results of the impairment reviews.

Management has performed sensitivity analysis based on the following revised assumptions:

	Sweater division	Sleepwear division	Trading & sourcing division
Growth rate beyond the budget period	2.0%	2.0%	2.0%
Discount rate	15.0%	15.0%	16.5%

Based on the above assumptions, the goodwill's recoverable amounts would still be greater than their carrying values and no impairment is noted.

(e) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**(f) Trade, bills and other receivables**

The Group's management determines the provision for impairment of trade, bills and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the provision at each balance sheet date.

(g) Employee benefits – share-based payments

The determination of the fair value of the share options granted requires estimates in determining, among others, the expected volatility of the share price, the expected dividend yield, the risk-free interest rate for the life of the option, and the number of options that are expected to become exercisable as stated in Note 16. Where the outcome of the number of options that are exercisable is different, such difference will impact the income statement in the subsequent remaining vested period of the relevant share options.

(h) Business combinations

Contingent consideration involving post-acquisition performance of the purchased entities is included in the cost of acquisition if the contingent consideration is likely to become payable and can be measured reliably at the date of the acquisitions. Contingent consideration is estimated by the Company's directors and the Group's management after considering historical performance and anticipation of post-acquisition growth and integration synergies expected to arise after the acquisitions. In making such financial budgets, management considers uncertainties and that various outcomes have different chances of being realized. Judgement is required in determining key assumptions adopted in the budgets. Changes to these key judgement and estimates could significantly affect the related financial budgets and therefore the estimated consideration for acquisition.

(i) Financial liabilities arising from the contractual obligation for the Group to purchase its own equity instruments

Financial liabilities arising from the contractual obligation for the Group to purchase its own equity instruments are estimated by the Company's directors and the Group's management after considering historical performance and anticipation of growth and integration synergies expected to arise after the acquisitions. In making such financial budgets, management considers uncertainties and that various outcomes have different chances of being realized. Judgement is required in determining key assumptions adopted in the budgets. Changes to these key judgement and estimates could significantly affect the related financial budgets and therefore the estimated account of financial liabilities.

Management has performed sensitivity analysis assuming that the net average budget profit during the relevant years for the determination of the financial liabilities has increased/decreased by 10%. The post-tax profit for the year and the equity would have been US\$2,406,000 (2007: US\$2,277,000) and US\$3,518,000 (2007: US\$2,277,000) lower/higher, respectively, as a result of the increase/decrease of financial liabilities of US\$3,518,000 (2007: US\$2,277,000).

5 SEGMENT INFORMATION

(a) Primary reporting format – business segments

At 31 December 2008, the Group is principally engaged in the manufacturing and trading of garment, textile products and accessories, and the provision of freight forwarding and logistics services.

Turnover consists of sales from garment, textile products and accessories and the provision of freight forwarding and logistics services.

The segment results for the year ended 31 December 2008 are as follows:

	Garment/ textile products/ accessories US\$'000	Freight forwarding/ logistics services US\$'000	Others US\$'000	Group US\$'000
Segment revenues				
Total segment revenue	809,718	17,105	6,429	833,252
Inter-segment revenue	—	(1,250)	—	(1,250)
Turnover	809,718	15,855	6,429	832,002
Segment result	22,672	440	—	23,112
Finance income				2,087
Finance costs				(4,609)
Share of losses of associated companies	—	(16)	—	(16)
Share of profits of jointly controlled entities	1,386	—	—	1,386
Profit before income tax				21,960
Income tax credit/(expense)	1,330	(117)	—	1,213
Profit for the year				23,173
Minority interest	(11,265)	(79)	—	(11,344)
Profit attributable to the equity holders of the Company				11,829

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (CONTINUED)**(a) Primary reporting format – business segments (continued)**

The segment results for the year ended 31 December 2007 are as follows:

	Garment/ textile products US\$'000	Freight forwarding/ logistics services US\$'000	Others US\$'000	Group US\$'000
Segment revenues				
Total segment revenue	777,227	20,668	6,389	804,284
Inter-segment revenue	—	(3,407)	—	(3,407)
Turnover	777,227	17,261	6,389	800,877
Segment result	22,420	1,575	—	23,995
Finance income				3,601
Finance costs				(4,670)
Share of profits of associated companies	—	95	—	95
Share of profits of jointly controlled entities	1,592	—	—	1,592
Profit before income tax				24,613
Income tax expense	(3,804)	(404)	—	(4,208)
Profit for the year				20,405
Minority interest	(7,757)	(133)	—	(7,890)
Profit attributable to the equity holders of the Company				12,515

Other segment items included in the consolidated income statement are as follows:

	Year ended 31 December 2008			Year ended 31 December 2007		
	Garment/ textile products/ accessories US\$'000	Freight forwarding/ logistics services US\$'000	Group US\$'000	Garment/ textile products US\$'000	Freight forwarding/ logistics services US\$'000	Group US\$'000
Depreciation (Note 7)	14,614	1,055	15,669	13,383	1,053	14,436
Amortization (Notes 6 and 8)	2,315	—	2,315	2,145	—	2,145
Provision for/(write-back of) impairment of trade receivables	198	327	525	595	(198)	397
Provision for/(write-back of) inventory obsolescence	345	—	345	(1,567)	—	(1,567)
Provision for impairment of intangible assets	—	—	—	758	—	758
Provision for impairment of property, plant and equipment	719	—	719	—	—	—

5 SEGMENT INFORMATION (CONTINUED)

(a) Primary reporting format – business segments (continued)

Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to third parties.

The segment assets and liabilities at 31 December 2008 and capital expenditure for the year then ended are as follows:

	Garment/ textile products/ accessories US\$'000	Freight forwarding/ logistics services US\$'000	Group US\$'000
Segment assets	500,062	28,143	528,205
Associated companies	8	369	377
Jointly controlled entities	9,531	—	9,531
	509,601	28,512	538,113
Unallocated assets			3,683
Total assets			541,796
Segment liabilities	221,593	8,136	229,729
Unallocated liabilities			65,607
Total liabilities			295,336
Capital expenditure (Notes 6, 7 and 8)	43,055	1,069	44,124

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (CONTINUED)**(a) Primary reporting format – business segments (continued)**

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows:

	Garment/ textile products US\$'000	Freight forwarding/ logistics services US\$'000	Group US\$'000
Segment assets	418,101	30,057	448,158
Associated companies	8	374	382
Jointly controlled entities	6,745	—	6,745
	<u>424,854</u>	<u>30,431</u>	<u>455,285</u>
Unallocated assets			<u>1,839</u>
Total assets			<u>457,124</u>
Segment liabilities	160,801	12,477	173,278
Unallocated liabilities			<u>53,766</u>
Total liabilities			<u>227,044</u>
Capital expenditure (Notes 7 and 8)	18,306	1,209	19,515

Segment assets consist primarily of leasehold land and land use rights, property, plant and equipment, intangible assets, interests in associated companies and jointly controlled entities, inventories, receivables, cash and cash equivalents and other operating assets. Unallocated assets comprise deferred taxation and prepaid tax.

Segment liabilities comprise operating liabilities. They exclude items such as taxation and corporate borrowings.

Capital expenditure comprises additions to leasehold land and land use rights (Note 6), property, plant and equipment (Note 7) and intangible assets (Note 8), including additions resulting from acquisitions through business combinations (Notes 6, 7 and 8).

5 SEGMENT INFORMATION (CONTINUED)

(b) Secondary reporting segments – geographical segments

The Group's revenue is mainly derived from customers located in the United States of America (the "United States" or "USA"), Europe and Asia, while the Group's business activities are conducted predominantly in Hong Kong, the People's Republic of China (the "PRC"), Commonwealth of Northern Mariana Islands, the Philippines and the United States.

	2008 US\$'000	2007 US\$'000
Revenue		
The United States	367,450	412,277
Europe	301,369	237,543
Japan	49,793	57,413
The PRC	42,997	32,330
Others	70,393	61,314
	832,002	800,877

Revenue is allocated based on the place/countries in which customers are located.

	2008 US\$'000	2007 US\$'000
Total Assets		
Hong Kong	281,911	233,690
The United States	26,924	42,902
The PRC	175,829	118,158
Commonwealth of Northern Mariana Islands	11,863	11,257
The Philippines	30,708	40,540
Others	4,653	3,450
	531,888	449,997
Associated companies	377	382
Jointly controlled entities	9,531	6,745
	541,796	457,124

Total assets are allocated based on where the assets are located.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (CONTINUED)**(b) Secondary reporting segments – geographical segments (continued)**

	2008 US\$'000	2007 US\$'000
Capital expenditure		
Hong Kong	3,652	8,545
The United States	1,339	162
The PRC	36,591	8,812
Commonwealth of Northern Mariana Islands	931	856
The Philippines	855	554
Others	756	586
	44,124	19,515

Capital expenditure is allocated based on where the assets are located.

6 LEASEHOLD LAND AND LAND USE RIGHTS

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

	2008 US\$'000	2007 US\$'000
Outside Hong Kong held on: Leases of between 10 to 50 years	10,644	4,476
Opening net book amount	4,476	4,286
Acquisition of subsidiaries (Note 33)	5,892	—
Amortization of prepaid operating lease payments (Note 25)	(163)	(91)
Transfer to a related company	—	(41)
Exchange differences	439	322
Closing net book amount	10,644	4,476

- (a) As of 31 December 2008, the Group has not yet obtained the land use right certificate of a piece of land located in the PRC with a carrying amount of US\$1,073,000 (2007: Nil).
- (b) As at 31 December 2008, land use rights of US\$1,301,000 (2007: US\$ Nil) were pledged as collateral for the Group's banking facilities (Note 18).

7 PROPERTY, PLANT AND EQUIPMENT – THE GROUP

	Buildings US\$'000	Leasehold improvements US\$'000	Plant and machinery US\$'000	Furniture, fixture and equipment US\$'000	Motor vehicles US\$'000	Construction- in-progress US\$'000	Total US\$'000
Year ended 31 December 2007							
Opening net book amount	36,572	6,548	28,988	13,747	1,909	2,879	90,643
Additions	142	1,463	4,729	2,926	449	3,986	13,695
Disposals	—	(82)	(667)	—	(74)	—	(823)
Transfer from construction-in-progress	1,171	1	2,917	—	—	(4,089)	—
Depreciation	(2,045)	(1,829)	(5,816)	(4,122)	(624)	—	(14,436)
Exchange differences	946	1,168	1,014	148	24	199	3,499
Closing net book amount	36,786	7,269	31,165	12,699	1,684	2,975	92,578
At 31 December 2007							
Cost	44,830	17,560	61,659	39,157	4,350	2,975	170,531
Accumulated depreciation and impairment	(8,044)	(10,291)	(30,494)	(26,458)	(2,666)	—	(77,953)
Net book amount	36,786	7,269	31,165	12,699	1,684	2,975	92,578

	Buildings US\$'000	Leasehold improvements US\$'000	Plant and machinery US\$'000	Furniture, fixture and equipment US\$'000	Motor vehicles US\$'000	Construction- in-progress US\$'000	Total US\$'000
Year ended 31 December 2008							
Opening net book amount	36,786	7,269	31,165	12,699	1,684	2,975	92,578
Acquisition of subsidiaries (Note 33)	20,083	2,798	2,824	1,367	51	—	27,123
Additions	1,325	797	2,737	2,214	265	3,062	10,400
Disposals	(11)	(281)	(863)	(338)	(89)	—	(1,582)
Provision for impairment	—	—	(719)	—	—	—	(719)
Transfer from construction-in-progress	1,778	286	617	616	25	(3,322)	—
Depreciation	(2,834)	(1,945)	(6,294)	(3,977)	(619)	—	(15,669)
Exchange differences	3,384	—	1,949	1	15	199	5,548
Closing net book amount	60,511	8,924	31,416	12,582	1,332	2,914	117,679
At 31 December 2008							
Cost	74,256	23,053	74,874	44,279	4,671	2,914	224,047
Accumulated depreciation and impairment	(13,745)	(14,129)	(43,458)	(31,697)	(3,339)	—	(106,368)
Net book amount	60,511	8,924	31,416	12,582	1,332	2,914	117,679

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 PROPERTY, PLANT AND EQUIPMENT – THE GROUP (CONTINUED)

- (a) Depreciation expense of US\$6,442,000 (2007: US\$5,343,000) has been expensed in cost of sales, and US\$9,227,000 (2007: US\$9,093,000) has been expensed in the general and administrative expenses.
- (b) As at 31 December 2008, the Group has not yet obtained the building certificate for a building located in the PRC with the carrying amount of US\$8,229,000 (2007: Nil).
- (c) As at 31 December 2008, buildings with net book value of US\$11,309,000 (2007: Nil) were pledged as collateral for the Group's building facilities. (Note 18)
- (d) The construction-in-progress mainly represented factories and office buildings under construction in the PRC. Upon completion, the accumulated cost under construction-in-progress will be transferred to other property, plant and equipment.

8 INTANGIBLE ASSETS – THE GROUP

	Goodwill US\$'000	Customer relationships US\$'000	Total US\$'000
Year ended 31 December 2007			
Opening net book amount	24,992	27,865	52,857
Acquisition of additional interests in subsidiaries from minority shareholders (Note i)	5,820	—	5,820
Adjustment on contingent consideration (Note ii)	9,139	—	9,139
Amortization (Note 25)	—	(2,054)	(2,054)
Provision for impairment (Note 25)	(758)	—	(758)
Closing net book amount	39,193	25,811	65,004
At 31 December 2007			
Cost	40,778	29,419	70,197
Accumulated amortization and impairment	(1,585)	(3,608)	(5,193)
Net book value	39,193	25,811	65,004
Year ended 31 December 2008			
Opening net book amount	39,193	25,811	65,004
Acquisition of subsidiaries (Note iii)	—	709	709
Adjustment on contingent consideration (Note ii)	5,309	—	5,309
Amortization (Note 25)	—	(2,152)	(2,152)
Closing net book amount	44,502	24,368	68,870
At 31 December 2008			
Cost	46,087	30,128	76,215
Accumulated amortization and impairment	(1,585)	(5,760)	(7,345)
Net book value	44,502	24,368	68,870

8 INTANGIBLE ASSETS – THE GROUP (CONTINUED)

Notes :

- (i) In April 2007, the Group exercised the call option to acquire an additional 10% interest in On Time International Limited, a subsidiary from the minority shareholder at an estimated consideration of approximately US\$4,553,000 and consequently a goodwill of approximately US\$2,308,000 has been recognized.

In August 2007, one of the minority shareholders of Partner Joy Limited, a subsidiary, exercised the put option to sell his 19% interest of Partner Joy Limited to the Group at a consideration of approximately US\$5,967,000 and consequently goodwill of approximately US\$3,512,000 has been recognized.

- (ii) The total purchase considerations for the acquisition of certain subsidiaries are determined with reference to the average of the consolidated net profits of those subsidiaries over certain specific periods. During the year, the goodwill in relation to the interest acquired increased by US\$5,309,000 (2007: US\$9,139,000) as a result of a change of such contingent consideration.

- (iii) In June 2008, the Group entered into a sale and purchase agreement to acquire 60% interest in Trinew Limited (“Trinew”) at an estimated consideration of approximately US\$17,545,000. In connection with this acquisition, an intangible asset, representing customer relationships, of approximately US\$709,000 has been recognized. In addition, the Group’s interest in the fair values of the identifiable net assets acquired exceeds the cost of such acquisition with an amount of US\$1,303,000, which has been recognized immediately in the consolidated income statement. The above transaction was completed on 8 August 2008.

Amortization of US\$2,152,000 (2007: US\$2,054,000) is expensed in the general and administrative expenses.

Impairment tests for goodwill

Goodwill is allocated to the Group’s cash-generating units (“CGUs”) identified according to business division. A summary of the goodwill allocation to different CGUs is presented below:

	2008 US\$'000	2007 US\$'000
Sweater division	15,473	15,473
Sleepwear division	2,380	2,380
Trading and sourcing division	26,649	21,340
	44,502	39,193

The recoverable amount of a CGU is determined based on fair value less cost to sell calculations. These calculations use cash flow projections based on financial budgets approved by management covering the one to two-year periods. Cash flows beyond the one to two-year periods are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate of the business in which the CGUs operate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 INTANGIBLE ASSETS – THE GROUP (CONTINUED)**Impairment tests for goodwill (continued)**

The key assumptions other than the financial budgets covering the one to two-year periods used for fair value less cost to sell calculations are as follows:

	Sweater division	Sleepwear division	Trading and sourcing division
Gross margin (a)	14.4%	17.6%	17.3%
Growth rate (a)	3.0%	3.0%	3.0%
Discount rate (b)	14.0%	14.0%	15.5%

Notes:

- (a) Weighted average gross margin and growth rate used to extrapolate cash flows beyond the budget period.
- (b) Discount rate applied to the cash flow projections.

These assumptions have been used for the analysis of each CGU within the business division.

Management determined the financial budgets based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant divisions.

The Group does not have to recognize an impairment loss for the year ended 31 December 2008 based on the impairment assessment performed.

9 INVESTMENTS IN SUBSIDIARIES – THE COMPANY

	2008 US\$'000	2007 US\$'000
Unlisted shares, at cost	71,564	71,564
Amounts due from subsidiaries	128,762	128,062
	200,326	199,626

9 INVESTMENTS IN SUBSIDIARIES — THE COMPANY (CONTINUED)

Particulars of the principal subsidiaries as at 31 December 2008:

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
Best Uni Limited	Hong Kong	Garment trading and sourcing overseas/in Hong Kong	10,000 ordinary share of HK\$1 each	60%
Chelton Force Limited	British Virgin Islands ("BVI")	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100%
Concorde Garment Manufacturing Corporation	Commonwealth of Northern Mariana Islands ("CNMI")	Garment manufacturing in CNMI	1,510,000 ordinary shares of US\$1 each	100%
Consolidated Transportation Services, Inc.	CNMI	Provision of freight forwarding and logistics services in CNMI	1,000,000 ordinary shares of US\$1 each	100%
Consolidated Transportation Services (FSM), Inc	Pohnpei	Provision of freight forwarding and logistics services in Pohnpei	100,000 ordinary shares of US\$1 each	90%
Consolidated Transportation Services, Incorporated (Guam)	Guam	Provision of freight forwarding and logistics services in Guam	400,000 ordinary shares of US\$1 each	100%
Consolidated Transportation Services, Inc. (Palau)	Palau	Provision of freight forwarding and logistics services in Palau	100,000 ordinary shares of US\$1 each	80%
CTSI Holdings Limited	BVI	Investment holding in the Philippines	1 ordinary share of US\$1 each	100%
CTSI Logistics, Inc.	U.S.A.	Provision of freight forwarding and logistics services in the U.S.A.	10,000 ordinary shares with total paid-in capital of US\$100,000	100%
CTSI Logistics Inc.	Cambodia	Provision of freight forwarding and logistics services in Cambodia	100 ordinary shares of Riels 380,000 each	100%
CTSI Logistics (Korea), Inc.	Korea	Provision of freight forwarding and logistics services in Korea	60,000 ordinary shares of Won 5,000 each	60%
CTSI Logistics Limited	Hong Kong	Provision of freight forwarding and logistics services in Hong Kong	100,000 ordinary shares of HK\$10 each	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 INVESTMENTS IN SUBSIDIARIES – THE COMPANY (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
CTSI Logistics Phils., Inc.	The Philippines	Provision of freight forwarding and logistics services in the Philippines	100,000 ordinary shares of Peso 100 each	100%
Desk Top Limited	Hong Kong	Trading and manufacturing of bags in Hong Kong	23,206,000 ordinary shares of HK\$1 each	60%
Desk Top Bags (Mfg) Limited	BVI	Provision of subcontracting services in the PRC	100 ordinary shares of US\$1 each	60%
Dongguan Luen Thai Garment Co., Ltd.	The PRC	Garment manufacturing in the PRC	Registered capital of HK\$225,350,000 with total paid-in capital of HK\$225,350,000	100%
Dongguan Quan Thai Garment Co., Ltd	The PRC	Sourcing and trading of garment products in the PRC	HK\$8,000,000	100%
Dongguan Xingxi Handbags Factory Co. Ltd.	The PRC	Manufacturing of bags in the PRC	HK\$20,000,000	60%
Dongguan Xing Hao Handbags Factory Co. Ltd.	The PRC	Manufacturing of bags in the PRC	HK\$54,000,000	60%
East Talent Properties Limited	Hong Kong	Investment holding in Hong Kong	10,000 ordinary shares of HK\$1 each	100%
Fortune Investment Overseas Limited	BVI	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100%
GJM (HK) Limited	Hong Kong	Sourcing and trading of garment products in Hong Kong	2 ordinary shares of HK\$1 each	100%
G.J.M. (H.K.) Manufacturing Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK\$100 each	100%
GJM (Qingyuan) Light Industrial Development Limited	The PRC	Garment manufacturing in the PRC	Registered capital of HK\$120,500,000 with total paid-in capital of HK\$106,147,661	100%

9 INVESTMENTS IN SUBSIDIARIES – THE COMPANY (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
GJM (UK) Limited	United Kingdom ("UK")	Garment distributor in the UK	1 ordinary share of GBP 1 each	100%
Golden Dragon Apparel, Inc.	The Philippines	Garment manufacturing in the Philippines	62,000 ordinary shares of Peso 100 each	100%
Guangzhou G.J.M. Garment Manufacturing Factory	The PRC	Garment manufacturing in the PRC	Registered capital of US\$7,200,000 with total paid-in capital of US\$7,200,000	100%
Hongquan Consulting Services (Shenzhen) Co., Ltd.	The PRC	Provision of consultancy services in the PRC	HK\$1,000,000	100%
Kingsmere, Inc.	U.S.A.	Investment holding in the U.S.A.	100 ordinary shares with total paid-in capital of US\$310,000	100%
L & T International Group Phils., Inc.	The Philippines	Garment manufacturing in the Philippines	20,000 ordinary shares of Peso 100 each	100%
L & T Macao Garment Manufacturing Company Limited	Macao	Garment manufacturing in Macau	MOP\$25,000	100%
Luen Thai International Group Limited	Hong Kong	Sourcing, manufacturing and trading of garment and textile products in Hong Kong	2 ordinary shares of HK\$1 each	100%
Luen Thai Macao Commercial Offshore Company Limited	Macao	Sourcing, manufacturing and trading of garment and textile products in Macau	MOP\$25,000	100%
Luen Thai Overseas Limited	Bahamas	Investment holding in Hong Kong	16,685,804 ordinary shares of US\$1 each	100%
Manhattan Limited	Hong Kong	Garment trading and sourcing overseas/in Hong Kong	10,000 ordinary shares of HK\$1 each	60%
On Time International Limited	BVI	Investment holding in Hong Kong	500 ordinary share of US\$1 each	60%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 INVESTMENTS IN SUBSIDIARIES – THE COMPANY (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
Philippine Luen Thai Holdings Corporation	The Philippines	Investment holding in the Philippines	260,000 ordinary shares of Peso 100 each	100%
Partner Joy Group Limited	BVI	Investment holding in Hong Kong	1,000 ordinary shares of US\$1 each	90%
Power Might Limited	BVI	Investment holding in Hong Kong	12,207,164 ordinary shares of US\$1 each	100%
Sino Venus Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK\$1 each	100%
Sunny Force Limited	BVI	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100%
Tellas Ltd.	U.S.A.	Import and distribution of garments in the U.S.A.	100 ordinary shares with total paid-in capital of US\$100,000	100%
Tien-Hu Knitters Limited	Hong Kong	Trading of garment products in Hong Kong	1,000,000 ordinary shares of HK\$1 each	90%
Tien-Hu Trading (Hong Kong) Limited	Hong Kong	Trading of garment products in Hong Kong	1,000,000 ordinary shares of HK\$1 each	90%
Tien-Hu Knitting Factory (Hong Kong) Limited	Hong Kong	Trading of garment products in Hong Kong	1,000,000 ordinary shares of HK\$1 each	90%
TMS Fashion (H.K) Limited	Hong Kong	Garment trading and investment holding in Hong Kong	3,000,000 shares of HK\$1 each	60%
TMS International Limited	Hong Kong	Garment trading in Hong Kong	2,000 ordinary shares of HK\$500 each	60%
Trinew Limited	BVI	Investment holding in Hong Kong	1,000 ordinary shares of US\$1 each	60%
Winley Industries Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK\$1 each	100%

9 INVESTMENTS IN SUBSIDIARIES – THE COMPANY (CONTINUED)

All subsidiaries of the Company are indirectly held except for Luen Thai Overseas Limited.

Except for the amount of US\$2,500,000 (2007: US\$2,500,000) which is repayable within twelve months and non-interest bearing, amounts due from subsidiaries represent equity funding by the Company to the respective subsidiaries and are measured in accordance with the Company's accounting policy for investments in subsidiaries.

10 INTERESTS IN ASSOCIATED COMPANIES – THE GROUP

	2008 US\$'000	2007 US\$'000
Share of net assets	377	382
Unlisted investments, at cost	156	156

Particulars of the principal associated companies as at 31 December 2008:

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
CTSI Logistics (Taiwan), Inc.	Taiwan	Provision of freight forwarding and logistics services in Taiwan	1,420,000 ordinary shares of TWD 10 each	49%
LT Investment Co. Ltd.	Cambodia	Property holding in Cambodia	25 ordinary shares of US\$8,000 each	49%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 INTERESTS IN JOINTLY CONTROLLED ENTITIES – THE GROUP

	2008 US\$'000	2007 US\$'000
Share of net asset	3,255	1,642
Loans to jointly controlled entities	6,276	5,103
	9,531	6,745
Unlisted investments, at cost	3,528	3,205

The loans to jointly controlled entities are unsecured, non-interest bearing and not repayable within the next twelve months.

Particulars of the principal jointly controlled entities as at 31 December 2008:

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital	Assets	Liabilities	Revenues	Profit/ (loss)	Interest held
				US\$'000	US\$'000	US\$'000	US\$'000	
Shenzhen Guangtai International Co. Ltd.	The PRC	Garment trading in the PRC	HK\$20,000,000	2,946	149	—	(271)	50%
Shenzhen Li Da Silk Garment Company Limited	The PRC	Garment manufacturing in the PRC	RMB2,400,000	468	388	3,460	(413)	25%
Wuxi Liantai Garments Co., Ltd.	The PRC	Garment manufacturing in the PRC	Registered capital of US\$2,050,000 with total paid-in capital of US\$1,241,400	3,164	533	4,650	75	50%
Yuen Thai Industrial Company Limited	Hong Kong	Sourcing, manufacturing and trading of sports and active wear in the PRC	2 ordinary shares of HK\$1 each	31,413	30,718	64,557	(619)	50%
Yuen Thai Holdings Limited	BVI	Investment holding	2 ordinary shares of US\$1 each	8,344	5,909	2,705	2,439	50%
Yuenthai Philippines, Inc.	The Philippines	Garment manufacturing in the Philippines	Peso 4,000,000	8,038	8,412	9,915	2,987	50%
Hong Kong Guangtai International Company Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	9,602	11,434	1,269	(901)	50%
New Sunshine Limited	Hong Kong	Investment holding and subcontracting services in the PRC	5,000,000 ordinary shares of HK\$1 each	1,609	1,333	3,586	(375)	45%

12 DEFERRED INCOME TAX – THE GROUP

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2008 US\$'000	2007 US\$'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	(230)	(759)
Deferred tax liabilities		
– Deferred tax liabilities to be settled after more than 12 months	5,075	3,769
Deferred tax liabilities, net	4,845	3,010

The net movement on the deferred income tax account is as follows:

	2008 US\$'000	2007 US\$'000
Beginning of the year	3,010	3,538
Credited to the income statement (Note 28)	(312)	(504)
Acquisition of a subsidiaries (Note 33)	2,147	–
Exchange differences	–	(24)
End of the year	4,845	3,010

The movement in deferred tax assets and liabilities during the year is as follows:

	Provision US\$'000	Accelerated tax depreciation US\$'000	Intangible assets US\$'000	Others US\$'000	Total US\$'000
At 1 January 2007	(38)	565	3,350	(339)	3,538
Charged/(credited) to the income statement	8	(307)	(289)	84	(504)
Exchange difference	–	–	–	(24)	(24)
At 31 December 2007	(30)	258	3,061	(279)	3,010
Charged/(credited) to the income statement	41	(79)	(355)	81	(312)
Acquisition of subsidiaries (Note 33)	–	263	117	1,767	2,147
At 31 December 2008	11	442	2,823	1,569	4,845

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 DEFERRED INCOME TAX – THE GROUP (CONTINUED)

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. The Group did not recognize deferred income tax assets of US\$5,558,000 (2007: US\$7,814,000) in respect of losses amounting to US\$21,570,000 (2007: US\$23,752,000) that can be carried forward against future taxable income. These tax losses have an expiry date from 2009 to 2017.

13 INVENTORIES – THE GROUP

	2008 US\$'000	2007 US\$'000
Raw materials	26,398	30,564
Work-in-progress	23,613	17,491
Finished goods	26,197	17,190
	76,208	65,245

The cost of inventories recognized as expense and included in cost of sales amounted to US\$591,992,000 (2007: US\$568,500,000).

As at 31 December 2008, certain inventories were held under trust receipts bank loan arrangement.

14 TRADE AND BILLS RECEIVABLES – THE GROUP

	2008 US\$'000	2007 US\$'000
Trade and bills receivables	109,831	101,712
Less: provision for impairment of receivables	(1,480)	(1,647)
Trade and bills receivables – net	108,351	100,065

The carrying amount of trade and bills receivables approximates its fair value.

14 TRADE AND BILLS RECEIVABLES – THE GROUP (CONTINUED)

The Group normally grants credit terms to its customers ranging from 30 to 90 days. The ageing analysis by due date of trade debtors net of provision for impairment is as follows:

	2008 US\$'000	2007 US\$'000
Current	82,771	70,231
1 to 30 days	17,770	19,326
31 to 60 days	3,038	3,123
61 to 90 days	1,501	2,126
Over 91 days	3,271	5,259
Amounts past due but not impaired	25,580	29,834
	108,351	100,065

The impairment provision was approximately US\$1,480,000 as at 31 December 2008 (2007: US\$1,647,000). The provision made during the year has been included in the general and administrative expenses in the consolidated income statement.

Movement in the provision for impairment of trade receivables are as follows:

	2008 US\$'000	2007 US\$'000
At 1 January	1,647	1,250
Provision for impairment of trade receivables	525	397
Utilization of provision	(692)	—
At 31 December	1,480	1,647

The carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

	2008 US\$'000	2007 US\$'000
US\$	82,352	62,914
HK\$	436	7,229
Euro	16,854	18,472
RMB	5,859	8,437
Philippines Peso	2,401	2,559
Other currencies	449	454
	108,351	100,065

The maximum exposure to credit risk at the reporting date is the carrying amount of the receivable mentioned above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 CASH AND BANK BALANCES

	Group		Company	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Cash at bank and in hand	75,783	52,398	435	167
Short-term bank deposits	38,463	44,270	—	—
Bank deposit with a maturity period over 3 months	3,593	—	—	—
Cash and bank balances in the balance sheets	117,839	96,668	435	167
Less: Bank overdrafts (Note 18)	(7,757)	(5,863)		
Bank deposit with a maturity period over 3 months	(3,593)	—		
Cash and cash equivalents in the consolidated cash flow statement	106,489	90,805		
Pledged deposit	1,509	1,519		

The Group's cash and cash equivalents and bank deposit are denominated in the following currencies:

The Group	2008 US\$'000	2007 US\$'000
US\$	63,845	77,193
HK\$	22,306	3,604
Euro	12,997	7,739
RMB	16,362	5,439
Other currencies	3,838	4,212
	119,348	98,187
The Company	2008 US\$'000	2007 US\$'000
US\$	382	164
Other currencies	53	3
	435	167

The effective interest rate on short-term bank deposits was 1.34% (2007: 4.47%) per annum; these deposits have an average maturity of 67 days (2007: 50 days).

As at 31 December 2008, pledged bank deposits have a maturity period of 90 days. Certain of the Group's banking facilities were pledged by such bank deposits of US\$1,509,000 (2007: US\$1,519,000) (See Note 18).

16 SHARE CAPITAL

	Number of shares	Nominal value US\$'000
Authorized – ordinary shares of US\$0.01 each At 31 December 2007 and 2008	1,500,000,000	15,000
Issued and fully paid – ordinary shares of US\$0.01 each At 31 December 2007 and 2008	992,500,000	9,925

Share option

The Company has adopted a share option scheme (the “Scheme”) which is effective for a period of 10 years commencing 27 June 2004 pursuant to a written resolution of the then sole shareholder of the Company on 27 June 2004.

Under the Scheme, the Company may grant options to selected full-time employees and directors of the Company and its subsidiaries to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to eligible advisors and consultants to the Company and its subsidiaries at the discretion of the Board of Directors.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of the listing of the shares without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at the date of such grant, without prior approval from the Company's shareholders.

Options may be exercised at any time within the relevant exercise period. The exercise price is determined by the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 SHARE CAPITAL (CONTINUED)**Share option (Continued)**

Movements in the number of share options are as follows:

Date of grant	Exercise period	Subscription price per share	Beginning of year	Number of shares		End of year
				Granted	Lapsed	
			'000	'000	'000	'000
26 January 2006	From 26 January 2007 to 25 January 2011	HK\$2.52	7,285	—	—	7,285
10 November 2006	From 10 November 2007 to 9 November 2011	HK\$1.28	7,916	—	—	7,916
21 April 2008	From 21 April 2009 to 20 April 2013	HK\$0.71	—	13,350	—	13,350
			15,201	13,350	—	28,551

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price	Number of share options	
		2008	2007
		'000	'000
25 January 2011	HK\$ 2.52	7,285	7,285
9 November 2011	HK\$ 1.28	7,916	7,916
20 April 2013	HK\$ 0.71	13,350	—
		28,551	15,201

The weighted average fair value of the options granted during the year of US\$0.03 per option is determined using Binominal Lattice valuation model. The significant inputs into the model are as follows:

	Share options granted on 21 April 2008
Volatility	44.79%
Dividend yield	1.89%
Expected option life	2.8 to 4.9 years
Annual risk free interest rate	1.26% to 2.99%

During the year, the expense recognized in the consolidated income statement for share options granted to directors and employees amounted to US\$425,000 (2007: US\$563,000).

17 OTHER RESERVES**(a) Group**

	Share premium US\$'000	Capital reserve (Note (i)) US\$'000	Other capital reserves (Note (ii)) US\$'000	Share based compensation reserve US\$'000	Exchange reserve US\$'000	Total US\$'000
At 1 January 2007	116,998	11,722	(28,761)	539	(1,870)	98,628
Derecognition of financial liabilities upon acquisition of minority interest (Note (iii))	—	—	4,311	—	—	4,311
Share based compensation expense	—	—	—	563	—	563
Exchange differences arising on translation of foreign subsidiaries	—	—	—	—	4,550	4,550
As at 31 December 2007	116,998	11,722	(24,450)	1,102	2,680	108,052
At 1 January 2008	116,998	11,722	(24,450)	1,102	2,680	108,052
Acquisition of subsidiaries (Note 20)	—	—	(11,122)	—	—	(11,122)
Share based compensation expense	—	—	—	425	—	425
Exchange differences arising on translation of foreign subsidiaries	—	—	—	—	3,985	3,985
As at 31 December 2008	116,998	11,722	(35,572)	1,527	6,665	101,340

(b) Company

	Share premium US\$'000	Capital reserve (Note (iv)) US\$'000	Share based compensation reserve US\$'000	Total US\$'000
At 1 January 2007	116,998	71,564	539	189,101
Share based compensation expense	—	—	563	563
At 31 December 2007	116,998	71,564	1,102	189,664
At 1 January 2008	116,998	71,564	1,102	189,664
Share based compensation expense	—	—	425	425
At 31 December 2008	116,998	71,564	1,527	190,089

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 OTHER RESERVES (CONTINUED)**(b) Company (Continued)**

Notes :

- (i) The capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Initial Public Offerings (“IPO”) reorganization and the nominal value of the Company’s shares issued in exchange thereof.
- (ii) Other capital reserves primarily represent the initial recognition of the financial liabilities in relation to the put options granted to the minority shareholders and the subsequent derecognition of such financial liabilities upon the put options are exercised or expired.
- (iii) In prior year, the Group derecognized financial liabilities of US\$5,962,000 and the related reserve amount of US\$4,311,000 when a minority shareholder of Partner Joy exercised the put option to sell his 19% interest in Partner Joy to the Group.
- (iv) The Company’s capital reserve represents the difference between the aggregate net asset values of the subsidiaries acquired and the nominal value of the Company’s shares issued for the acquisition of the subsidiaries through the share exchange under the Group’s IPO reorganization.

18 BANK BORROWINGS — THE GROUP

	2008 US\$'000	2007 US\$'000
Non-current		
Bank loan	33,259	33,750
Current		
Bank overdrafts	7,757	5,863
Trust receipt bank loans	24,651	8,045
Collateralized borrowings	3,630	—
Short-term bank loans	7,359	—
Current portion of long-term bank loans	6,884	4,500
	50,281	18,408
Total borrowings	83,540	52,158
	2008 US\$'000	2007 US\$'000
Non-current bank borrowings		
— Secured	4,009	—
— Non-secured	29,250	33,750
Current bank borrowings		
— Secured	6,841	—
— Non-secured	43,440	18,408
	83,540	52,158

18 BANK BORROWINGS – THE GROUP (CONTINUED)

At 31 December 2008, the Group's borrowings are repayable as follows:

	Bank overdrafts		Trust receipt bank loans		Bank loans		Collateralized borrowings		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Within 1 year	7,757	5,863	24,651	8,045	14,243	4,500	3,630	—	50,281	18,408
Between 1 and 2 years	—	—	—	—	8,509	4,500	—	—	8,509	4,500
Between 2 and 5 years	—	—	—	—	13,500	13,500	—	—	13,500	13,500
Wholly Repayable within 5 years	7,757	5,863	24,651	8,045	36,252	22,500	3,630	—	72,290	36,408
Over 5 years	—	—	—	—	11,250	15,750	—	—	11,250	15,750
	7,757	5,863	24,651	8,045	47,502	38,250	3,630	—	83,540	52,158

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

	2008 US\$'000	2007 US\$'000
HK\$	31,456	12,075
US\$	46,717	40,083
RMB	5,367	—
	83,540	52,158

The effective interest rates at the balance sheet date are as follows:

	2008			2007		
	US\$	HK\$	RMB	US\$	HK\$	RMB
Bank loans	1.88%	4.27%	7.3%	4.89%	—	—
Trust receipt bank loans	3.53%	3.53%	—	5.33%	3.62%	—
Bank overdrafts	5.00%	5.00%	—	8.00%	8.00%	—

As at 31 December 2008, the Group had aggregate banking facilities of approximately US\$293,362,000 (2007: US\$227,274,000) for overdrafts, loans, trade financing and bank guarantees. Unused facilities as at the same date amounted to approximately US\$200,057,000 (2007: US\$163,978,000). These facilities are secured by:

- (i) Mortgages over the Group's land use right and buildings with a total net book value of approximately US\$12,610,000 (2007: Nil) (Notes 6 and 7);
- (ii) Pledge of the Group's bank deposit of US\$1,509,000 (2007: US\$1,519,000);
- (iii) Floating charges over the Group's inventories held under trust receipts bank loan arrangements (Note 13); and
- (iv) Corporate guarantee provided by the Company and a minority shareholder of a subsidiary (Note 35).

The carrying amounts of the borrowings approximately equal their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 RETIREMENT BENEFIT OBLIGATIONS – THE GROUP

	2008 US\$'000	2007 US\$'000
Balance sheet obligation for:		
Defined benefits plans	1,961	2,746
Provision for long service payments	470	389
	2,431	3,135
Income statement charge for (Note 26)		
– Defined benefits plan	885	793
– Provision for long service payment	135	73
	1,020	866

The assets of the defined benefit plans are held independently of the Group's assets in separate trustee administered funds. The Group's major plans are valued by qualified actuaries annually using the projected unit credit method. Defined benefit plans in the Philippines are valued by Real Actuarial Consulting Limited, an independent qualified actuary valuer.

(a) Defined contribution plans

During the year, the Group maintained various defined contribution retirement schemes for its employees, which are managed by independent trustees. Employees' and employer's contributions are based on various percentages of employees' gross salaries and length of service. The total contributions to the defined contribution retirement schemes were approximately US\$1,130,000 for the year ended 31 December 2008 (2007: US\$847,000).

(b) Defined benefit plans

The amounts recognized in the consolidated balance sheet are determined as follows:

	2008 US\$'000	2007 US\$'000
Present value of unfunded obligations	1,763	2,757
Unrecognized actuarial gains/(losses)	198	(11)
Liability in the consolidated balance sheet	1,961	2,746

19 RETIREMENT BENEFIT OBLIGATIONS – THE GROUP (CONTINUED)**(b) Defined benefit plans (Continued)**

The amounts recognized in the consolidated income statement are as follows:

	2008 US\$'000	2007 US\$'000
Current service cost	847	636
Interest cost	228	157
Curtailment/settlement loss	(190)	—
Total, included in staff costs (Note 26)	885	793

The movements of the liability recognized in the consolidated balance sheet are as follows:

	2008 US\$'000	2007 US\$'000
At 1 January	2,746	1,813
Total expense — included in staff costs as shown above	885	793
Contributions paid	(1,691)	(26)
Exchange difference	21	166
At 31 December	1,961	2,746

The principal actuarial assumptions used are as follows:

	2008	2007
Discount rate	11%	8.5%
Future salary increases rate	9.5%	7.5%

(c) Long service payments

Provision for long service payments represents the Group's obligations for long service payments to its employees in Hong Kong on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance.

The obligation is calculated using the projected unit credit method, discounted to its present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. Such long service payment obligations are valued by Real Actuarial Consulting Limited, an independent qualified actuary valuer.

The amounts recognized in the consolidated balance sheet are determined as follows:

	2008 US\$'000	2007 US\$'000
Present value of unfunded obligations	548	427
Unrecognized actuarial losses	(78)	(38)
Liability in the consolidated balance sheet	470	389

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 RETIREMENT BENEFIT OBLIGATIONS – THE GROUP (CONTINUED)**(c) Long service payments (Continued)**

The amounts recognized in the consolidated income statement are as follows:

	2008 US\$'000	2007 US\$'000
Current service cost	123	28
Interest cost	12	20
Net actuarial losses recognized during the year	—	25
Total, included in employee benefit expense (Note 26)	135	73

The above charges were included in the general and administrative expenses.

Movements of the provision for long service payments of the Group are as follows:

	2008 US\$'000	2007 US\$'000
At 1 January	389	482
Total expenses — included in staff costs as shown above	135	73
Contributions paid	(414)	(286)
MPF refund received	360	120
At 31 December	470	389

The principal actuarial assumptions used are as follows:

	2008	2007
Discount rate	1.2%	3.1%
Future salary increases rate	1.0%	3.0%

**20 CONSIDERATION PAYABLE AND OTHER LONG-TERM LIABILITIES
— THE GROUP**

Amounts comprise:

	2008 US\$'000	2007 US\$'000
Consideration payable for acquisition of subsidiaries	—	5,316
Financial liabilities in connection with the put options granted for the acquisition of subsidiaries	33,959	21,357
	33,959	26,673

The consideration payable represents the balance of consideration payable for the acquisition of 60% equity interest in On Time International Limited (“On Time”). The balance is included in other payable and accruals as at 31 December 2008.

20 CONSIDERATION PAYABLE AND OTHER LONG-TERM LIABILITIES — THE GROUP (CONTINUED)

Financial liabilities represents the amounts payable for the put options granted to the vendors of On Time, Partner Joy and Trinew to sell their 40%, 10% and 40% interests in On Time, Partner Joy and Trinew, respectively, to the Group.

The repayment schedule of the consideration payable and financial liabilities is as follows:

	2008 US\$'000	2007 US\$'000
Consideration payable:		
— Within 1 year	2,613	5,433
— Between 1 and 2 years	—	5,758
Financial liabilities:		
— Within 1 year	2,831	2,843
— Between 2 and 5 years	38,018	12,519
— Later than 5 years	—	13,596
	43,462	40,149
Less: Amount representing interest element	(4,059)	(5,200)
Present value of consideration payable and financial liabilities	39,403	34,949
Less: Current portion included in other payables and accruals	(5,444)	(8,276)
	33,959	26,673

During the year, the Group recognized additional financial liabilities of approximately US\$11,122,000 in relation to the financial liabilities arising from the put options granted to the vendor of Trinew to sell his 40% interest in Trinew to the Group. Such financial liabilities of US\$11,122,000 are initially recognized at their fair values, which are the present value of the estimated redemption amount and were reclassified from equity.

The carrying amounts of the Group's consideration payable and financial liabilities are denominated in the following currencies:

	2008 US\$'000	2007 US\$'000
US\$	22,837	26,673
HK\$	11,122	—
	33,959	26,673

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 TRADE AND BILLS PAYABLES

At 31 December 2008, the ageing analysis of trade and bills payables are as follows:

	2008 US\$'000	2007 US\$'000
0 to 30 days	33,411	43,387
31 to 60 days	19,398	8,224
61 to 90 days	7,069	706
Over 91 days	6,318	3,438
	66,196	55,755

The carrying amounts of the Group's trade and bills payables are denominated in the following currencies:

	2008 US\$'000	2007 US\$'000
US\$	23,172	18,059
HK\$	23,785	24,213
Euro	9,416	11,864
RMB	8,625	279
Philippines Peso	671	987
Other currencies	527	353
	66,196	55,755

22 DERIVATIVE FINANCIAL INSTRUMENTS

	2008 US\$'000	2007 US\$'000
Leveraged forward exchange contracts (Notes (i) and (ii))	1,574	—
Currency forward contracts (Note (iii))	625	—
	2,199	—

The fair values of the leveraged foreign forward exchange contracts are calculated using discounted cash flow analysis based on the applicable yield curves of interest rates and foreign exchange rates as determined by counterparty financial institutions.

As at 31 December 2008, the Group had the following material leveraged forward exchange contracts:

- (i) Peso and US\$

As at 31 December 2008, the Group has an outstanding Peso target redemption forward contract. Under this contract, the Group will receive Peso against delivery of US\$ at exchange rates of US\$: Peso pre-determined in the contract.

22 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(i) Peso and US\$ (Continued)

Each time when the contract is executed, if the spot market exchange rate ("spot rate") of US\$: Peso is lower than the strike rate pre-determined in the contract ("strike rate"), the Group will receive Peso against delivery of US\$ at the pre-determined exchange rate by paying the monthly normal nominal US\$ amount set in the contract.

Each time when the contract is executed, if however, the spot rate of US\$: Peso is higher than the strike rate, the Group will receive Peso against delivery of US\$ at the pre-determined exchange rate by paying a geared nominal US\$ amount set in the contract, which would be twice of the nominal US\$ amount of US\$1,000,000.

The Peso amount is deliverable in monthly instalments up to May 2009. This contract has a strike rate of US\$1: Peso45.08.

This contract will be knocked out (i.e. the obligation on either the Group or the bank cease) when the accumulated intrinsic value (i.e. strike rate minus spot rate) is first greater than or equal to US\$1: Peso6.

Under this contract, the Group will receive Peso against delivery of US\$. The maximum deliverable outstanding amount to the Group under these contracts is Peso450,800,000 (equivalent to US\$9,295,000 using the exchange rate as at 31 December 2008) and a maximum amount of US\$10,000,000 to be delivered out by the Group. It is deliverable in instalments up to May 2009.

The Group recognized a fair value loss of US\$1,004,000 in relation to these Peso related target redemption forward contracts during the year ended 31 December 2008 (2007: Nil).

(ii) RMB and US\$

As at 31 December 2008, the Group also has certain RMB outstanding target redemption forward contracts. These contracts are settled in US\$ by reference to the gains and losses against certain pre-determined US\$: RMB exchange rates and are calculated by reference to a notional US\$ amount.

Each time when the contracts are executed, if the spot market exchange rate of US\$: RMB is lower than a pre-determined movement of the exchange rates in the contracts, the Group will receive payment from the bank at rates ranged from 4.58% to 8.00% on the nominal US\$ amount.

Each time when the contracts are executed, if however, the spot market exchange rate of US\$: RMB is higher than a pre-determined movement of the exchange rates in the contracts at all time during the contract periods, the Group will make payments to the bank at coupon rates ranged from 2.47% to 2.78% on the nominal US\$ amount.

The Group recognized a fair value loss of US\$570,000 in relation to these contracts during the year ended 31 December 2008 (2007: Nil).

(iii) Currency forward contracts

Under the contracts, the Group will receive US\$ against delivery of Euro. The notional amounts under these contracts are to sell Euro4,518,000 for US\$5,725,000. These contracts will be matured by May 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 REVENUE

	2008 US\$'000	2007 US\$'000
Sales of garment, textile products and accessories	809,718	777,227
Freight forwarding and logistics service fee	15,855	17,261
Management income from related companies and a jointly controlled entity	343	410
Rental income from a related company	148	210
Commission income from		
— a related company	1,350	1,728
— third parties	3,505	646
Sales of quota	157	767
Others	926	2,628
Turnover	832,002	800,877

24 OTHER GAINS — NET

	2008 US\$'000	2007 US\$'000
Fair value losses on derivative financial instruments		
— leveraged forward exchange contracts (Note 22)	(1,574)	—
— net losses on currency forward contracts	(625)	—
Net foreign exchange gains	3,609	2,259
Excess of the Group's interest in the fair values of identifiable net assets acquired over the cost of the acquisition (Note 33)	1,303	—
	2,713	2,259

25 EXPENSES BY NATURE

	2008 US\$'000	2007 US\$'000
Raw materials and consumables used	607,121	568,835
Changes in inventories of finished goods and work in progress	(15,129)	(335)
Loss/(gain) on disposal of property, plant and equipment	261	(16)
Auditors' remuneration	927	774
Amortization of leasehold land and land use rights (Note 6)	163	91
Amortization of intangible assets (Note 8)	2,152	2,054
Provision for impairment of intangible assets (Note 8)	—	758
Depreciation of property, plant and equipment (Note 7)	15,669	14,436
Provision for impairment of property, plant and equipment	719	—
Provision for claims	6,155	4,540
Provision for impairment of receivables	525	397
Write-off of non-current assets	—	2,204
Provision for/(write-back of) inventory obsolescence	345	(1,567)
Operating leases		
— office premises and warehouses	8,135	6,661
— plant and machinery	391	1,476
Quota expenses	1,687	5,975
Employee benefit expense (Note 26)	123,149	116,088
Transportation	5,053	4,747
Commission	6,055	3,567
Legal and professional fee	4,351	4,617
Communication, supplies and utilities	24,124	24,845
Write-back of other payables	—	(2,681)
Other expenses	19,750	21,675
	811,603	779,141
Representing:		
Cost of sales	677,713	645,982
Selling and distribution expenses	23,306	26,158
General and administrative expenses	110,584	107,001
	811,603	779,141

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 EMPLOYEE BENEFIT EXPENSE — INCLUDING DIRECTORS' EMOLUMENTS**(a) Employee benefit expenses during the year are as follows:**

	2008 US\$'000	2007 US\$'000
Wages, salaries and allowances	117,488	112,937
Termination benefits	2,414	566
Share options granted to directors and employees	425	563
Pension costs		
— Defined contribution plans (Note 19(a))	1,130	847
— Defined benefit plans (Note 19(b))	885	793
— Long service payments (Note 19(c))	135	73
Others	672	309
	123,149	116,088

(b) Directors' and senior management

The remuneration of every Director for the year ended 31 December 2008 is set out below:

Name of Director	Fees US\$'000	Salary US\$'000	Discretionary bonuses US\$'000	Other benefits ¹ US\$'000	Employer's contribution	Total US\$'000
					to pension scheme US\$'000	
<i>Executive directors</i>						
Mr. Tan Siu Lin	—	113	—	—	—	113
Mr. Tan Henry	—	332	51	6	2	391
Mr. Tan Cho Lung, Raymond	—	242	37	40	2	321
Ms. Mok Siu Wan, Anne	—	377	542	42	133	1,094
Mr. Tan Sunny	—	112	17	10	2	141
<i>Non-executive directors</i>						
Mr. Tan Willie	150	—	—	5	—	155
Mr. Lu Chin Chu	15	—	—	—	—	15
<i>Independent non-executive directors</i>						
Mr. Chan Henry	15	—	—	—	—	15
Mr. Cheung Siu Kee	15	—	—	—	—	15
Mr. Seing Nea Yie	15	—	—	—	—	15

26 EMPLOYEE BENEFIT EXPENSE – INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

(b) Directors' and senior management (Continued)

The remuneration of every Director for the year ended 31 December 2007 is set out below:

Name of Director	Fees US\$'000	Salary US\$'000	Discretionary bonuses US\$'000	Other benefits ¹ US\$'000	Employer's contribution to pension scheme US\$'000	Total US\$'000
<i>Executive directors</i>						
Mr. Tan Siu Lin	—	122	—	—	—	122
Mr. Tan Henry	—	332	—	17	2	351
Mr. Tan Cho Lung, Raymond	—	242	19	47	2	310
Ms. Mok Siu Wan, Anne	—	377	391	44	107	919
Mr. Tan Sunny	—	112	17	26	2	157
<i>Non-executive directors</i>						
Mr. Tan Willie	150	—	—	11	—	161
Mr. Lu Chin Chu ²	5	—	—	—	—	5
<i>Independent non-executive directors</i>						
Mr. Chan Henry	15	—	—	—	—	15
Mr. Cheung Siu Kee	15	—	—	—	—	15
Mr. Seing Nea Yie	15	—	—	—	—	15

¹ Other benefits mainly include share option.

² Mr. Lu Chin Chu was appointed as non-executive director on 17 September 2007.

None of the directors of the Company waived any emoluments paid by the group companies during the year (2007: Nil).

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one (2007: two) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four individuals (2007: three) during the year are as follows:

	2008 US\$'000	2007 US\$'000
Basic salaries, other allowances and benefit in kind	868	755
Discretionary bonuses	1,000	704
Pension scheme contributions	10	13
Others	458	—
	2,336	1,472

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 EMPLOYEE BENEFIT EXPENSE – INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)**(c) Five highest paid individuals (Continued)**

The emoluments fell within the following bands:

	Number of individuals	
	2008	2007
Emolument bands		
US\$387,001 to US\$452,000 (equivalent to HK\$3,000,001 to HK\$3,500,000)	1	2
US\$580,645 to US\$645,161 (equivalent to HK\$4,500,001 to HK\$5,000,000)	2	1
US\$645,162 to US\$709,677 (equivalent to HK\$5,000,001 to HK\$5,500,000)	1	—
	4	3

During the year, no emoluments have been paid to the directors of the Company or the five highest paid individuals as an inducement to join or as compensation for loss of office.

27 FINANCE INCOME AND COSTS

	2008	2007
	US\$'000	US\$'000
Interest expense on bank loans and overdrafts	2,698	3,684
Change in estimates of financial liabilities	567	(195)
Interest expense on financial liabilities carried at amortized costs	1,344	1,181
Finance costs	4,609	4,670
Finance income – Interest income	(2,087)	(3,601)
Net finance costs	2,522	1,069

28 INCOME TAX (CREDIT)/EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2008	2007
	US\$'000	US\$'000
Current income tax:		
– Hong Kong profits tax	(1,615)	2,015
– Overseas taxation	7,938	9,168
Over-provision in prior years	(7,224)	(6,471)
Deferred income tax (Note 12)	(312)	(504)
	(1,213)	4,208

28 INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

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

	2008 US\$'000	2007 US\$'000
Profit before income tax	21,960	24,613
Tax calculated at domestic tax rates applicable to profits in the respective countries	5,862	11,086
Income not subject to tax	(1,731)	(2,927)
Expenses not deductible for taxation purposes	1,231	1,569
Tax losses for which no deferred income tax asset was recognized	593	880
Utilization of previously unrecognized tax losses	64	50
Tax effect of share of results of associated companies and jointly controlled entities	190	21
Remeasurement of deferred tax – change in tax rate	(198)	—
Over-provision in prior years	(7,224)	(6,471)
Tax (credit)/charge	(1,213)	4,208

The weighted average applicable tax rate was 26.7% (2007: 45.0%). The decrease is caused by a change of profitability of the Group's subsidiaries in the respective countries.

Notes:

- (i) In prior years, certain overseas subsidiaries had made provision for tax liabilities based on their estimated taxable profits arising from their respective operating countries outside Hong Kong. The Directors have undertaken a review of the Group's tax provisions as at 31 December 2008 and have determined that a provision for tax of US\$7,224,000 would no longer be required and should be derecognized. Consequently, the amount of US\$7,224,000 was taken to the consolidated income statement for the year ended 31 December 2008.
- (ii) In prior years, a Hong Kong subsidiary has received notices of additional assessments/assessments from the Hong Kong Inland Revenue department ("IRD") for the years of assessment 2000/01 to 2007/08 demanding for tax totalling US\$3,843,000 in respect of certain income, which the management has regarded as not subject to Hong Kong Profits Tax. The management has thoroughly revisited the situations and has concluded that the subsidiary company has good grounds to defend that the relevant income are not subject to Hong Kong Profits Tax. In these circumstances, the management has filed objections to these additional assessments/assessments and has concluded that no provision for these assessments is necessary. The subsidiary company has paid the amount of US\$3,453,000 in the form of Tax Reserve Certificates. The Tax Reserve Certificates amount paid was included in prepayments in the consolidated balance sheet as at 31 December 2008.
- (iii) Two subsidiaries newly acquired during the year were under tax audit conducted by the IRD. As at 31 December 2008, the IRD has issued additional assessments to these entities from years of assessments 2000/01 to 2006/07, demanding tax totalling US\$6,113,000. These subsidiaries have lodged objections to these assessments. The directors consider that sufficient tax provision has been made in the financial statements in this regard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of US\$4,304,000 (2007: US\$3,662,000).

30 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2008 US\$'000	2007 US\$'000
Profit attributable to equity holders of the Company	11,829	12,515
Weighted average number of ordinary shares in issue	992,500,000	992,500,000
Basic earnings per share (US cents per share)	1.2	1.3

There was no dilutive effect on earnings per share since all outstanding share options were anti-dilutive.

31 DIVIDENDS

	2008 US\$'000	2007 US\$'000
Interim dividend paid of US0.213 cent or equivalent to HK1.661 cents (2007: US0.205 cent) per ordinary share	2,114	2,035
Proposed final dividend of US0.145 cent or equivalent to HK1.124 cents (2007: US0.174 cent) per ordinary share	1,439	1,727
	3,553	3,762

The directors recommend the payment of a final dividend of US cent of 0.145 per share, totalling US\$1,439,000. Such dividend is to be approved by the shareholders at the forthcoming Annual General Meeting. These financial statements do not reflect this dividend payable.

32 CONSOLIDATED CASH FLOW STATEMENTS

	2008 US\$'000	2007 US\$'000
Profit before income tax	21,960	24,613
Adjustment for:		
Share of losses/(profits) of associated companies	16	(95)
Share of profits of jointly controlled entities	(1,386)	(1,592)
Finance income (Note 27)	(2,087)	(3,601)
Finance costs (Note 27)	4,609	4,670
Fair value losses on derivative financial instruments	2,199	—
Excess of the Group's interest in the fair values of identifiable net assets acquired over the cost of the acquisition	(1,303)	—
Amortization of intangible assets (Note 8)	2,152	2,054
Amortization of leasehold land and land use rights (Note 6)	163	91
Depreciation of property, plant and equipment (Note 7)	15,669	14,436
Provision for impairment of property, plant and equipment	719	—
Impairment of intangible assets	—	758
Loss/(gain) on disposal of property, plant and equipment, net	261	(16)
Share based compensation expense	425	563
Operating profit before working capital changes	43,397	41,881
Changes in working capital:		
Inventories	13,056	87
Trade and bills receivables	27,440	(6,213)
Amounts due from related companies	(968)	(778)
Amounts due from associated companies and jointly controlled entities	3,543	1,651
Deposits, prepayments and other receivables	(7,764)	4,514
Trade and bills payables	(17,951)	11,849
Amounts due to related companies	(2,020)	1,338
Amounts due to associated companies and jointly controlled entities	2,306	1,563
Other payables and accruals	6,324	414
Retirement benefit obligation	(704)	840
Cash generated from operations	66,659	57,146

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2008 US\$'000	2007 US\$'000
Net book amount (Note 7)	1,582	823
(Loss)/gain on disposal of property, plant and equipment	(261)	16
Proceeds from disposal of property, plant and equipment	1,321	839

33 BUSINESS COMBINATIONS

On 8 August 2008, the Group acquired 60% interest in Trinew. Trinew and its subsidiaries are engaged in manufacturing and trading of laptop bags, luxury and fashionable bags. The acquired group contributed revenues of US\$62,798,000 and net profit of US\$613,000 to the Group for the period from 8 August 2008 to 31 December 2008. If the acquisition had occurred on 1 January 2008, Group's revenue would have been US\$913,622,000, and net profit attributable to the equity holders of the Company before allocations would have been US\$7,865,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiaries to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2008, together with the consequential tax effects.

Details of net assets acquired are as follows:

	US\$'000
Purchase consideration:	
— Cash paid	16,524
— Contingent consideration	1,021
Total purchase consideration	17,545

The minority shareholder of Trinew undertakes to reimburse the Group for any uncollected receivable from a specific customer up to an amount of US\$30,000,000 over a three-year period until 7 August 2011.

33 BUSINESS COMBINATIONS (CONTINUED)

The assets and liabilities as of 8 August 2008 arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
	US\$'000	US\$'000
Leasehold land and land use rights	5,892	1,398
Property, plant and equipment	27,123	24,547
Intangible assets	709	—
Inventories	24,019	24,019
Cash and cash equivalents	4,302	4,302
Trade and bill receivables	35,726	35,726
Deposits, prepayments and other receivables	1,026	1,026
Trade and bill payables	(28,392)	(28,392)
Other payables and accrual	(8,224)	(8,224)
Bank borrowings	(23,274)	(23,274)
Bank overdraft	(908)	(908)
Deferred tax liabilities	(2,147)	(263)
Current tax liabilities	(4,438)	(4,438)
	<u>31,414</u>	
Minority interests (40%)	(12,566)	
	<u>18,848</u>	
Fair value of net assets acquired	18,848	
Excess of the Group's interest in the fair value of the identifiable net assets acquired over acquisition cost (Note 24)	(1,303)	
	<u>17,545</u>	
Total purchase consideration		16,524
Purchase consideration settled in cash		(4,302)
Cash and cash equivalents in subsidiary acquired		908
Bank overdraft in subsidiary assumed		<u>13,130</u>
Cash outflow on acquisition		<u>13,130</u>

There was no business combination during the year ended 31 December 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 COMMITMENTS**(a) Capital commitments**

As at 31 December 2008, the group had the following capital commitments:

	2008 US\$'000	2007 US\$'000
Property, plant and equipment Contracted but not provided for	7,566	1,012

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2008 US\$'000	2007 US\$'000
Land and buildings		
– No later than 1 year	3,635	3,770
– Later than 1 year and no later than 5 years	6,141	5,736
– Later than 5 years	6,725	4,163
	16,501	13,669
Plant and equipment		
– No later than 1 year	224	173
– Later than 1 year and no later than 5 years	186	170
	410	343

35 SIGNIFICANT RELATED PARTY TRANSACTIONS

Capital Glory Limited, a company incorporated in the British Virgin Islands, owns 61.89% in the Company's shares. The directors regard the ultimate holding company of the Company to be Helmsley Enterprises Limited, a company incorporated in Bahamas. The ultimate controlling party of the Group is Mr. Tan Siu Lin.

(a) Transactions with related parties

During the year, the Group had the following significant transactions with related companies, associated companies and jointly controlled entities. Related companies are companies which are beneficially owned, or controlled, by Mr. Tan Siu Lin, Mr. Tan Henry, Mr. Tan Cho Lung, Raymond and Mr. Tan Sunny, Executive Directors of the Company, individually, jointly or collectively, or together with their close family members (collectively referred to as the "Tan's Family").

(i) Provisions of goods and services

	2008 US\$'000	2007 US\$'000
Management fee income from		
— related companies	—	16
— a jointly controlled entity	343	394
	343	410
Commission income from a related company	1,350	1,728
Freight forwarding and logistics service income from		
— related companies	350	348
— an associated company	1	—
— a jointly controlled entity	130	336
	481	684
Sales to a jointly controlled entity	3,481	15,458
Rental income from a related company	148	210
Recharge of advance payment and administrative expenses from related companies	117	397
Subcontracting income from a jointly controlled entity	1,258	—
Recharge of material costs and other expenses from jointly controlled entities	3,209	3,734

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)**(a) Transactions with related parties (Continued)***(ii) Purchases of goods and services*

	2008 US\$'000	2007 US\$'000
Rental expenses for occupying office premises, warehouses and staff quarters charged by related companies	1,585	1,439
Travelling related service fees charged by related companies	260	629
Professional and technological support service fees to related companies	2,117	1,980
Freight forwarding and logistics services charged by related companies	—	6
Air ticket and hotel reservation services charged by related companies	200	—
Administrative and support service fees charged by related companies	—	542
Subcontracting fee charged by		
— a related company	3,459	1,405
— jointly controlled entities	2,158	2,328
	5,617	3,733
Commission expense charged by jointly controlled entities	6,065	2,833
Purchase of material costs to a jointly controlled entity	7,085	6,553
Handling service fee paid/payable to PT. Best Indo ¹ , a related company	—	1,030

The above related party transactions were carried out in accordance with the terms mutually agreed by the respective parties.

¹ PT. Best Indo is company incorporated in Indonesia and owned by Mr. Frank Hermann Fleischer, a minority shareholder of On Time and his family member.

35 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)**(b) Key management compensation**

	2008 US\$'000	2007 US\$'000
Basic salaries and allowance	3,604	2,650
Bonus	2,047	1,178
Pension scheme contributions	158	126
Others	—	—
	5,809	3,954

(c) Banking facilities

As at 31 December 2008, certain banking facilities of certain subsidiaries of the Group were secured by the corporate guarantees given by the Company and a minority shareholder of a subsidiary.

The Company also provided corporate guarantees to the extent of HK\$90,000,000 to Yuen Thai Industrial Co. Ltd., a jointly controlled entity of the Group.

(d) Amount due from/(to) related companies, associated companies and jointly controlled entities

As at 31 December 2008, the outstanding balances with the related companies, jointly controlled entities and associated companies are unsecured, interest-free and repayable on demand.

The credit quality of these balances that are neither past due nor impaired can be assessed by reference to historical information about counter party default rates. None of them have defaults and been renegotiated in the past.

(e) Loan from a minority shareholder of a subsidiary

As at 31 December 2008, there was a loan from a minority shareholder of a subsidiary amounting to US\$3,097,000 (2007: Nil). The loan is unsecured, interest bearing at HIBOR plus 1.25% and repayable on 8 August 2011.

36 CONTINGENT LIABILITIES AND LITIGATION

The Group is involved in various labour lawsuits and claims arising from the normal course of business. The Directors believe that the Group has substantial legal and factual bases for their position and are of the opinion that losses arising from these lawsuits, if any, will not have a material adverse impact on the results of the operations or the financial position of the Group. Accordingly, no provision for such liabilities has been made in the financial statements.

37 EVENTS AFTER THE BALANCE SHEET DATE

On 17 February 2009, a subsidiary of the Group has entered into a Sales and Purchase Agreement with Luen Thai Land Limited, to acquire the entire issued share capital of Victory Land Properties Limited ("Victory"). Luen Thai Land Limited is a related company and is beneficially owned by the Tan's family. The major asset of Victory is a piece of land located in the PRC. The consideration for this transaction was approximately US\$6,318,000 (equivalent to HK48,969,000).

FINANCIAL SUMMARY

	2004	2005	2006	2007	2008
Financial highlights (US\$'000)					
Total assets	353,759	415,420	445,894	457,124	541,796
Total liabilities	179,233	191,416	231,661	227,044	295,336
Bank borrowings	97,392	83,687	69,434	52,158	83,540
Capital and reserves attributable to the equity holders of the Company	174,228	218,714	198,731	220,286	221,562
Working capital	88,854	118,099	126,644	123,168	111,995
Revenue	553,766	593,118	661,836	800,877	832,002
Profit attributable to the equity holders of the Company	30,361	13,240	2,509	12,515	11,829
Key ratios					
Current ratio	1.72	1.66	1.77	1.77	1.51
Gross profit margin	22.7%	19.2%	18.8%	19.3%	18.5%
Profit margin attributable to the equity holders of the Company	5.5%	2.2%	0.4%	1.56%	1.42%

Note: The Company was incorporated on 15 March 2004. The summary has been presented on the basis that the Company had been the holding company of the Group from the beginning of the earliest period presented.