OVERVIEW

The Group is one of the leading high-to-luxury end menswear retailers primarily serving Greater China. The Group manages six international menswear brands, namely Altea, Cerruti 1881, D'urban, Gieves & Hawkes, Intermezzo and Kent & Curwen, which are referred to as the Core Business in this document. Other than the self-owned Kent & Curwen brand, the Group's brands are operated under long term renewable licences in Greater China. The Group also has a number of joint ventures with Salvatore Ferragamo in South Korea and various countries in Southeast Asia.

The Group has developed itself into one of the largest menswear retail networks in Greater China by successfully introducing, promoting and managing international menswear brands in the markets where the Group operates. As at 30 September 2009, the Group operated 353 retail stores in Greater China, of which 271 retail stores were in Mainland China; and the JVs operated 37 retail stores in South Korea, Malaysia, Singapore and Thailand.

The retail stores of the Group are strategically located at high-end shopping malls and department stores in prime venues to attract its target customer base and maintain the premium image of the Brands. The Group is viewed by property developers and department stores as their anchor tenant. All of the Group's retail stores are self-operated to maintain a consistent standard of high quality across the merchandising, marketing and customer service functions and predominantly mono-branded, to support the growth and maintain the prestige of each brand.

The Group operates on an asset-light business model, where it outsources to third-party manufacturers (including certain related parties) the production of (i) product parts (such as front and back panels, facing, collars, labels, lapels and sleeves of jackets and pants); and (ii) certain types of clothing products such as T-shirts and knitwear, whilst preserving the critical assembly and finishing functions for products such as suits, blazers, jackets, blousons, overcoats and pants, a process at which such product parts are stitched together, molded, pressed with components added to form the Group's finished products. The Directors believe that the critical assembly and finishing function is important to maintain product quality. Moreover, the Group also manages the supply chain for all its brands, enabling it to capture attractive margins, enhance scalability, ensure quality standards and foster interdependence among Brand Owners and the Group.

NON-COMPARABILITY OF THE RESULTS

As described in the section headed "History, Reorganisation and Group Structure" in this document, Parent Group did not own any interest in DDL Group and Green Group until 30 April 2006. As a result, the financial results of DDL Group and Green Group for the four months ended 30 April 2006 are not consolidated in accordance with HKFRS into the results of the Group prior to 1 May 2006. On 30 April 2006, the entire interests in DDL Group and Green Group were acquired by Parent Group pursuant to the Acquisitions. For the preparation of the financial information of the Group as contained in Appendix I to this document, the Acquisitions were accounted for using the purchase accounting method in accordance with HKFRS and the results of DDL Group and Green Group were consolidated into the Group starting from 1 May 2006 using merger accounting in accordance with AG 5.

The consolidated financial statements of the Group for the three years ended 31 December 2008, and the six months ended 30 June 2008 and 2009 reflect the contributions of the Core Business and the Non-core Business. As set out in the section headed "Connected Transactions", on 1 June 2009 and 25 August 2009, the Group and BLS Holdings entered into agreements for the group restructuring of the ownership of BLS (Private Labels), which holds the Non-core Business. Pursuant to the said agreements, the ownership of BLS (Private Labels) reverted back to BLS Holdings on 25 August 2009. Settlement of the considerations for the subsequent disposal of the interest in BLS (Private Labels) is by way of elimination of all non-interest bearing acquisition loans arising from the said transactions which was completed on 30 September 2009. Hence, following such date, the financial results of the Non-core Business has ceased to form part of that of the Group, which renders the financial results of the Group thereafter no longer comparable to the financial results of the prior periods and the prior periods' results not indicative of the Group's future performance.

In view of the foregoing, investors are advised to exercise caution in reviewing the discussion and analysis set out in this section as the results of the Group for each of the years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2008 and 2009 may not be directly comparable or indicative of the Group's future performance.

To assist investors in evaluating the Group's financial performance, the following sets of financial data are included in this section:

(1) the results of the Group for the three years ended 31 December 2008 and the six months ended 30 June 2008 and 2009 as contained in the Accountant's Report set out in Appendix I to this document; and

(2) the results of the Core Business for the three years ended 31 December 2008, and the six months ended 30 June 2008 and 2009.

BASIS OF PRESENTATION

The Company was incorporated on 21 December 2006 in Bermuda as an exempted company with limited liability under the Companies Act. As part of a group reorganisation on 31 December 2006, the Company became the holding company of the Group. On 31 March 2007, the Group acquired a 50% interest in each of the JVs from Parent Group. The results of the Group has been prepared using the principle of merger accounting in accordance with AG 5, which includes the financial results of the companies comprising the Group (including companies engaged in the Core Business and the Non-core Business) as if the current group structure had been in existence since 1 January 2006 or since the dates when the relevant subsidiaries of the Group first became under the common control of Parent Group. As the results of the Non-Core Business formed part of the Group subsequently after the group reorganisation, it has been included in the Group's results during the Track Record Period so as to reflect the substance of the transactions and present the full picture of the results and financial position of the Group.

FACTORS THAT AFFECT THE GROUP'S RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The Group's results of operations and financial condition have been and will continue to be affected by a number of factors, including those set out in the following:

Levels of per capita disposable income and consumer spending

To date, a significant part of the Group's business is in Mainland China. The level of disposable income as well as consumer spending in Mainland China have risen significantly in recent years as a result of the economic growth in the region. The growth in the Mainland China economy has in turn led to a significant rise in living standards and GDP per capita in the nation. In particular, the GDP per capita in Mainland China increased from approximately RMB7,858 in 2000 to approximately RMB22,698 in 2008, representing a CAGR of approximately 14.2%. Such increase resulted in a corresponding increase in consumer spending.

The economic growth mentioned above resulted in an increase in the spending power of the Chinese population. Such increase typically resulted in an increase in the demand for branded apparel products, which led to higher levels of sales for the Core Business.

Pricing of the Group's products

Successful brand management of the Brands over the years has enabled the Group to enjoy premium pricing in the market in which it operates. To maintain success in its operations, the Group must preserve its ability to price its products at a premium.

The prices of the products of the Group are determined primarily by referencing the cost of raw materials and fabric parts, as well as the general prices of products from other reputable brands. For most of the Brands, the Group strategically positions its products as high-to-luxury end products which target senior executives, professionals and individuals who have a common trait of strong spending power and are willing to pay a premium for branded products. The Core Business's focus on these consumers has enabled and will continue to enable the Core Business to capture a niche market and maintain its premium pricing policy.

Seasonality Effects

The Group's operating results are subject to seasonal fluctuations as sales amounts vary from season to season. Generally, higher sales are generally recorded between the months of October and February. For retail stores in the northern part of Mainland China, there is an increased level of sales during the winter season. Revenue for this period is also higher as the Core Business's winter products typically have a higher unit price as compared to those of other seasons. Changes in the weather patterns may also affect consumer purchase behaviour. The Core Business's revenue and inventory levels are therefore affected by any corresponding changes in consumer behaviour due to seasonality effects.

Retail network

As part of its expansion strategy, the Group plans to continue increasing its number of retail stores in the major cities in Mainland China where it has operations, as well as to increase its presence in second and third-tier cities in Mainland China. The Group expects that the level of its revenue will increase with an increase in the number of its retail stores. In order to preserve the luxurious brand image of the Group's products, the Group is selective in its choice of location for the new retail stores as strategic positioning of the retail stores will lead to increased sales volumes for the Group.

The table below shows the number of stores in the retail network of the Core Business in Mainland China (being the largest retail market of the Group) for the periods indicated:

	As at 31 December			As at 30 June	
	2006	2007	2008	2008	2009
Number of retail stores in Mainland China	153	219	265	236	272

The table below shows the monthly average revenue per retail store of the Core Business for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2006[(1)]	2007	2008	2008	2009
Monthly average revenue per retail store in Mainland China (RMB'000)[(2)]	221.5	250.7	261.3	292.0	246.7

Notes:

(1) *Excluding revenues of DDL Group and Green Group for the four months ended 30 April 2006.*

(2) *Monthly average revenue per retail store is derived by dividing revenue of the relevant period by average number of retail stores during the period.*

For further details, see the section headed "Business — Sales and Distribution" in this document.

For the year ended 31 December 2008 and the six months ended 30 June 2009, the Core Business suffered a drop in revenue growth due to a slowing down in same-store sales growth compared with the same period in the previous year and a reduction in the number of retail stores being opened. This was caused by the global financial turmoil, which resulted in a general deterioration in economic confidence and led to a reduction in consumers' appetite for high-to-luxury end products. The Group has seen a healthy growth in same-store sales in the first quarter after the Track Record Period against the backdrop of the global financial turmoil.

Cost of raw materials

The largest component of the Core Business's cost of sales is its cost of raw materials, which accounted for approximately 72.2% and 63.8% of the Core Business's production costs for the year ended 31 December 2008 and the six months ended 30 June 2009, respectively. The main raw materials consumed by the Core Business are fabric and trims, a majority of which is imported from Europe.

Fabric prices can fluctuate over a short period of time especially when there is a fluctuation in the exchange rate of Hong Kong dollars to Euros. Fabric prices tend to increase as a result of appreciation of Euro against the HK dollar. Going forward, any upward trends in fabric prices or trims will adversely affect the Group's operating results.

Rental expenses

The Group has an extensive retail network in the countries where it operates. As at 31 December 2008 and 30 June 2009, the Group operated 345 and 354 retail stores for the Core Business in Greater China, respectively. A majority of the Group's retail stores are situated in high-end shopping malls and department stores, the rent of which are payable in the form of variable rent with a minimum fixed amount. A significant portion of the Core Business's selling and marketing expenses therefore consists of store rental expenses, which amounted to approximately HK$328.0 million for the year ended 31 December 2008 (representing approximately 22.1% of the retail revenues of the Core Business for the year ended 31 December 2008) and approximately HK$178.8 million for the six months ended 30 June 2009 (representing approximately 23.5% of the retail revenue of the Core Business for the six months ended 30 June 2009).

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with HKFRS requires the management of the Company to adopt accounting policies and make estimates and assumptions that affect amounts reported in its financial statements. In applying those accounting policies, the Company makes subjective and complex judgments that frequently require estimates about matters that are of an inherently uncertain nature. Many of those policies, estimates and judgments are common to retail industries, while others are specific to the Group's business and operations. The following sections discuss certain key accounting policies, judgments and estimations which have been applied in preparing the Group's financial statements.

Impairment of non-financial assets

The Group tests goodwill for impairment annually. The Group also reviews other non-financial assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The Group determines the recoverable amounts based on value-in-use calculations or fair value less cost to sell. These calculations require the use of judgments and estimates.

The Group needs to exercise judgment in assessing: (i) whether an event has occurred that may indicate that the related asset value 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 cost to sell and net present value of future cash flows; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether such cash flow projections are discounted using an appropriate rate.

Any change in the assumptions could materially affect the net present value used in the impairment test and consequently, adversely affect the Group's financial condition and results of operations. If there is a significant adverse change in the Group's projected performance and resulting cash flow projections, the Group may have to recognise impairment losses in the income statement.

In April 2006, the Group acquired DDL Group and Green Group and recorded goodwill of approximately HK$523.9 million and HK$747.9 million respectively. The goodwill is attributable to significant synergies expected to arise from the acquired businesses and the value of its experienced management and skilled workforce.

Management performed a purchase price allocation on the initial acquisitions in April 2006 and applied HKFRS No. 3 "Business Combinations" to account for these acquisitions.

Useful lives of licences and trade marks

The Group has both "finite life" and "indefinite life" licences: (1) "finite life" licences in respect of the Core Business relate to Cerruti 1881 and Gieves & Hawkes and are carried at cost less accumulated amortisation and amortisation is allocated over the estimated useful life on a straight line method; and (2) "indefinite life" licences and trademarks in respect of the Core Business relate to D'urban and Kent & Curwen, and are carried at historical cost less accumulated impairment, and are tested for impairment annually as well as when there is an indication of impairment.

The useful life assessment of the "finite life" licences is based on the terms of the licensing agreements, length of time of relationship with licensors, expected economic benefits to be derived from the licences and any history of renewals. The Group will increase or decrease the amortisation charge depending on whether the useful lives are shorter or longer than previously estimated.

Net realisable value of inventories

The inventories of the Group are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price of the product in the ordinary course of business, less the estimated selling expenses. The Group refers to the current market condition and previously recorded sales in order to arrive at an estimate. The estimated selling price could change significantly as a result of changes in customer tastes or economic conditions.

The Group's inventories are comprised of raw materials, work in progress and finished goods. The Group makes specific provisions based on a detailed review with reference to the conditions of the inventories at the balance sheet date, the estimated subsequent sales based on historical experiences and the ageing of inventories by categories. If the net realisable value of an item is lower than its cost, the difference is charged to the income statement and the carrying value of that item is written down to its net realisable value.

RESULTS OF OPERATIONS

The tables and discussions below present the results of operations of the Core Business and the Group for the three years ended 31 December 2008 and the six months ended 30 June 2008 and 2009. This information should be read together with the financial information of the Core Business and the Group and the related notes in the Accountant's Report included in Appendix I to this document.

As mentioned in the section headed "History, Reorganisation and Group Structure" in this document, prior to the completion of the Acquisitions on 30 April 2006, the Group, DDL Group and Green Group were not under the common control of Parent Group. Hence the results of DDL Group and Green Group on or before 30 April 2006 are not permitted to be consolidated under HKFRS into the results of the Group. As set out in the paragraph headed "Non-comparability of the Results" in this section above, following 25 August 2009, the financial results of the Non-core Business has ceased to form part of the Group, which renders the financial results of the Group thereafter no longer comparable to the financial results of the prior periods. The results of the Group during the Track Record Period should therefore not be relied upon as being indicative of its future performance.

The following table presents selected financial data relating to the results of the Core Business during the Track Record Period as extracted from the Accountant's Report set out in Appendix I to this document:

Consolidated Income Statements of the Core Business

	Year ended 31 December			Six months ended 30 June	
	2006(1)	2007	2008	2008 (unaudited)	2009
	(HK$ million)			(HK$ million)	
Revenue	**755.2**	**1,177.7**	**1,528.4**	**759.4**	**768.4**
Cost of sales	(222.1)	(294.2)	(418.6)	(178.2)	(210.3)
Gross profit	**533.1**	**883.5**	**1,109.8**	**581.2**	**558.1**
Other income	10.1	17.9	32.7	13.5	11.9
Selling and marketing expenses	(252.9)	(468.5)	(644.1)	(308.0)	(329.3)
Administrative expenses	(97.2)	(227.9)	(323.1)	(145.1)	(140.8)
Other gains — net	3.4	16.1	19.0	28.5	0.1
Operating profit	**196.5**	**221.1**	**194.3**	**170.1**	**100.0**
Finance income	1.9	5.8	3.4	2.7	0.2
Finance costs	–	(79.5)	(50.9)	(28.5)	(19.8)
Finance income/(cost) — net	1.9	(73.7)	(47.5)	(25.8)	(19.6)
Share of profit of jointly controlled entities	32.6	40.7	42.3	26.3	12.9
Profit before income tax	**231.0**	**188.1**	**189.1**	**170.6**	**93.3**
Income tax expenses	(41.9)	(53.0)	(67.5)	(41.9)	(25.5)
Profit for the year/period	**189.1**	**135.1**	**121.6**	**128.7**	**67.8**
Attributable to:					
Equity holders of the Company	171.9	120.5	115.8	122.9	67.8
Minority interests	17.2	14.6	5.8	5.8	–
	189.1	135.1	121.6	128.7	67.8

Note:

(1) Excluding financial results of DDL Group and Green Group for the four months ended 30 April 2006. Financial results of DDL Group and Green Group after 30 April 2006 have been consolidated into the results of the Core Business as they have become subsidiaries of Parent Group after the completion of the Acquisitions on 30 April 2006.

Consolidated Balance Sheets of the Core Business

	As at 31 December			As at 30 June
	2006[(1)]	2007	2008	2009
	(HK$ million)			(HK$ million)
ASSETS				
Non-current assets				
Property, plant and equipment	37.0	112.3	117.8	101.7
Intangible assets	1,461.4	1,515.2	1,635.8	1,631.6
Investments in jointly controlled entities	111.6	154.2	145.6	158.2
Deposit and prepayments	44.0	43.8	41.8	37.4
Deferred income tax assets	3.1	32.1	61.2	56.1
Investments in subsidiary	–	–	–	40.0
	1,657.1	1,857.6	2,002.2	2,025.0
Current assets				
Inventories	193.2	418.4	537.6	482.5
Trade receivables	116.6	151.0	174.4	103.5
Deposit and prepayments	51.3	44.2	81.5	92.7
Amounts due from related parties	7.0	8.5	14.6	93.6
Amount due from immediate holding company	76.2	–	–	–
Cash and cash equivalents	127.4	797.5	122.2	280.2
	571.7	1,419.6	930.3	1,052.5
Total assets	2,228.8	3,277.2	2,932.5	3,077.5
EQUITY				
Owners' equity attributable to equity holders of the Company	159.2	1,113.1	1,358.0	1,366.5
Minority interests	58.1	70.7	–	–
Total equity	217.3	1,183.8	1,358.0	1,366.5
LIABILITIES				
Non-current liabilities				
Amount due to immediate holding company	1,714.2	–	–	–
Provision for long service payments	2.1	4.2	7.0	6.5
Retirement benefit obligations	7.6	7.7	7.7	12.1
Other payables and accrued expenses	–	55.7	48.0	45.2
Deferred income tax liabilities	29.6	29.6	48.8	52.2
Borrowings	–	930.0	939.1	1,062.1
	1,753.5	1,027.2	1,050.6	1,178.1
Current liabilities				
Trade payables	12.2	58.6	50.9	37.7
Other payables and accrued expenses	222.9	169.8	181.7	163.2
Amounts due to related companies	1.5	74.2	5.4	135.2
Current income tax liabilities	21.5	28.9	18.6	9.8
Borrowings	–	734.7	267.3	187.0
	258.0	1,066.2	523.9	532.9
Total liabilities	2,011.5	2,093.4	1,574.5	1,711.0
Total equity and liabilities	2,228.8	3,277.2	2,932.5	3,077.5
Net current assets	313.7	353.4	406.4	519.6
Total assets less current liabilities	1,970.8	2,211.0	2,408.6	2,544.6

Note:

(1) *Financial results of DDL Group and Green Group after 30 April 2006 have been consolidated into the results of the Core Business as they have become subsidiaries of Parent Group after the completion of the Acquisitions on 30 April 2006.*

The following table presents selected financial data relating to the consolidated results of the Group during the Track Record Period as extracted from the Accountant's Report set out in Appendix I to this document:

Consolidated Income Statements of the Group

	Year ended 31 December			Six months ended 30 June	
	2006[(1)]	2007	2008	2008 (unaudited)	2009
	(HK$ million)			(HK$ million)	
Revenue	**918.6**	**1,460.8**	**1,866.1**	**917.6**	**927.5**
Cost of sales	(266.2)	(387.1)	(531.9)	(219.5)	(264.0)
Gross profit	**652.4**	**1,073.7**	**1,334.2**	**698.1**	**663.5**
Other income	10.3	15.4	33.7	13.1	11.9
Selling and marketing expenses	(346.1)	(619.0)	(844.5)	(394.5)	(433.4)
Administrative expenses	(122.9)	(251.0)	(368.3)	(157.0)	(153.1)
Other gains — net	5.1	17.5	22.8	32.2	–
Operating profit	**198.8**	**236.6**	**177.9**	**191.9**	**88.9**
Finance income	1.9	6.0	3.5	2.8	0.3
Finance costs	–	(81.5)	(54.7)	(30.2)	(21.6)
Finance income/(cost) — net	1.9	(75.5)	(51.2)	(27.4)	(21.3)
Share of profit of jointly controlled entities	32.6	40.7	42.3	26.3	12.9
Profit before income tax	**233.3**	**201.8**	**169.0**	**190.8**	**80.5**
Income tax expenses	(42.2)	(56.5)	(65.2)	(43.9)	(24.2)
Profit for the year/period	**191.1**	**145.3**	**103.8**	**146.9**	**56.3**
Attributable to:					
Equity holders of the Company	173.9	130.7	98.0	141.2	56.3
Minority interests	17.2	14.6	5.8	5.7	–
	191.1	145.3	103.8	146.9	56.3

Note:

(1) Excluding financial results of DDL Group and Green Group for the four months ended 30 April 2006. Financial results of DDL Group and Green Group after 30 April 2006 have been consolidated into the results of the Group as they have become subsidiaries of Parent Group after the completion of the Acquisitions on 30 April 2006.

Consolidated Balance Sheet of the Group

	As at 31 December			As at 30 June
	2006[(1)]	2007	2008	2009
	(HK$ million)			(HK$ million)
ASSETS				
Non-current assets				
Property, plant and equipment	44.6	127.1	144.5	122.9
Intangible assets	1,463.0	1,516.7	1,637.2	1,633.1
Investments in jointly controlled entities	111.5	154.2	145.6	158.2
Deposit and prepayments	47.0	46.4	43.9	38.4
Deferred income tax assets	5.7	36.6	68.9	63.8
	1,671.8	1,881.0	2,040.1	2,016.4
Current assets				
Inventories	259.0	515.0	633.5	546.7
Trade receivables	155.3	200.0	223.2	127.7
Deposit and prepayments	58.6	62.4	91.4	106.3
Amounts due from related parties	1.9	3.7	15.4	1.6
Amount due from immediate holding company	76.2	–	–	–
Cash and cash equivalents	143.5	820.4	145.2	363.4
	694.5	1,601.5	1,108.7	1,145.7
Total assets	2,366.3	3,482.5	3,148.8	3,162.1
EQUITY				
Owners' equity attributable to equity holders of the Company	212.2	1,114.7	1,343.8	1,362.9
Minority interests	58.1	70.7	–	–
Total equity	270.3	1,185.4	1,343.8	1,362.9
LIABILITIES				
Non-current liabilities				
Amount due to immediate holding company	1,714.3	–	–	–
Provision for long service payments	2.1	4.2	7.0	6.5
Retirement benefit obligations	7.6	7.7	7.7	12.1
Other payables and accrued expenses	–	55.7	48.0	45.2
Deferred income tax liabilities	29.6	29.6	48.9	52.2
Borrowings	–	930.0	939.1	1,062.1
	1,753.6	1,027.2	1,050.7	1,178.1
Current liabilities				
Trade payables	16.6	73.4	68.1	45.4
Other payables and accrued expenses	239.3	192.3	209.6	180.8
Amounts due to related companies	64.2	182.6	105.2	137.5
Current income tax liabilities	22.3	33.4	20.2	10.3
Borrowings	–	788.2	351.2	247.1
	342.4	1,269.9	754.3	621.1
Total liabilities	2,096.0	2,297.1	1,805.0	1,799.2
Total equity and liabilities	2,366.3	3,482.5	3,148.8	3,162.1
Net current assets	352.1	331.6	354.4	524.6
Total assets less current liabilities	2,023.9	2,212.6	2,394.5	2,541.0

Note:

(1) *Financial results of DDL Group and Green Group after 30 April 2006 have been consolidated into the results of the Core Business as they have become subsidiaries of Parent Group after the completion of the Acquisitions on 30 April 2006.*

Principal income statement items

Revenue

The Core Business principally consists of the sale of high-to-luxury end menswear products in Mainland China, Hong Kong, Taiwan and Macau. Set out below is a breakdown of the revenues of the Core Business during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2006(1)	2007	2008	2008	2009
	(HK$ million)			(HK$ million)	
Retail	648.4	1,109.1	1,486.6	739.4	761.4
% of total revenue	*85.9%*	*94.2%*	*97.3%*	*97.4%*	*99.1%*
Others	106.8	68.6	41.8	20.0	7.0
% of total revenue	*14.1%*	*5.8%*	*2.7%*	*2.6%*	*0.9%*
Total	755.2	1,177.7	1,528.4	759.4	768.4

Note:

(1) Excluding financial results of DDL Group and Green Group for the four months ended 30 April 2006. Financial results of DDL Group and Green Group after 30 April 2006 have been consolidated into the results of the Core Business as they have become subsidiaries of Parent Group after the completion of the Acquisitions on 30 April 2006.

The Core Business's revenue is principally generated from retail sales, which represented approximately 85.9%, 94.2%, 97.3% of its revenue for each of the three years ended 31 December 2008, respectively, and approximately 97.4% and 99.1% of its revenue for the six months ended 30 June 2008 and 2009, respectively.

Set out below is a presentation of the revenue of the Core Business by geographical segments during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2006(1)	2007	2008	2008	2009
	(HK$ million)			(HK$ million)	
Mainland China	285.3	518.5	836.0	413.1	457.0
% of total revenue	*37.8%*	*44.0%*	*54.7%*	*54.4%*	*59.5%*
Hong Kong	322.4	478.6	522.9	258.4	241.6
% of total revenue	*42.7%*	*40.6%*	*34.2%*	*34.0%*	*31.4%*
Taiwan	118.3	164.6	166.9	87.9	69.8
% of total revenue	*15.7%*	*14.0%*	*10.9%*	*11.6%*	*9.1%*
Others	29.2	16.0	2.6	–	–
% of total revenue	*3.8%*	*1.4%*	*0.2%*	*0.0%*	*0.0%*
Total	755.2	1,177.7	1,528.4	759.4	768.4

Note:

(1) Excluding financial results of DDL Group and Green Group for the four months ended 30 April 2006. Financial results of DDL Group and Green Group after 30 April 2006 have been consolidated into the results of the Core Business as they have become subsidiaries of Parent Group after the completion of the Acquisitions on 30 April 2006.

Mainland China and Hong Kong are the most important markets of the Core Business, which together accounted for approximately 80.5%, 84.6% and 88.9% of the Core Business's revenue for each of the three years ended 31 December 2008, respectively, and approximately 88.4% and 90.9% of its revenues for the six months ended 30 June 2008 and 2009, respectively. The Group also expanded its retail network in Mainland China for the Core Business, which led to an increase in the revenue contribution from Mainland China from approximately 44.0% of the Core Business's revenue in 2007 to approximately 54.7% of the Core Business's revenue in 2008, and from approximately 54.4% of the

Core Business's revenue for the six months ended 30 June 2008 to approximately 59.5% of the Core Business's revenue for the corresponding period in 2009.

Since the completion of the Acquisitions in April 2006, the revenue of the Core Business has been growing substantially due to the success of the management of the Group in expanding the retail network of the Core Business and, at the same time, improving the same-store sales of the Core Business. For instance, the revenue of the Core Business for the year ended 31 December 2008 of approximately HK$1,528.4 million representing an approximately 29.8% year-on-year growth in comparison with that of the year ended 31 December 2007. The growth of the Core Business was impacted by the global financial turmoil in the second half of 2008 and the first half of 2009, adversely affecting the expansion plans for the retail network of the Core Business. A number of stores of the Core Business suffered a loss as a result of the global financial turmoil, which caused the Group to slow the pace of its store opening plan in the first six months of 2009. For the year ended 31 December 2008 and the six months ended 30 June 2009, five and three loss making stores were closed respectively. Meanwhile, the Group had a net increase of 59 stores since 31 December 2007 till 30 June 2009. As a result, the revenue of the Core Business was relatively stable for the six months ended 30 June 2009 in comparison with that of the six months ended 30 June 2008.

The Group made provisions for the loss-making stores of the Core Business in the amount of nil, approximately HK$1.1 million, approximately HK$16.6 million and approximately HK$3.6 million, for each of the three years ended 31 December 2008 and the six months ended 30 June 2009 respectively.

For the period since 30 June 2009 up to and including the Latest Practicable Date, the economies globally and in Greater China had seen signs of recovery. Improved market sentiment and optimism on the state of the economy has reinforced consumer confidence, and led to increased spending on discretionary items, such as clothing. The same-store sales growth of the Core Business for the three months ended 30 September 2009 compared with the same period in previous year for the Group (including Greater China) and for Mainland China were approximately 13.6% and 14.7%, respectively. The operating margin of the Core Business for the three months ended 30 September 2009 was approximately 13.6%.

Cost of sales

The cost of sales of the Core Business mainly consists of raw materials, direct labour costs, processing fees, production overheads and costs of finished products. The following table sets out the breakdown of the cost of sales of the Core Business during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2006[(1)]	2007	2008	2008	2009
	(HK$ million)			(HK$ million)	
Retail	130.6	250.3	379.9	165.8	201.7
% of total cost of sales	*58.8%*	*85.1%*	*90.8%*	*93.0%*	95.9%
Others	91.5	43.9	38.7	12.4	8.6
% of total cost of sales	*41.2%*	*14.9%*	*9.2%*	*7.0%*	4.1%
Total	222.1	294.2	418.6	178.2	210.3

Note:

(1) Excluding financial results of DDL Group and Green Group for the four months ended 30 April 2006. Financial results of DDL Group and Green Group after 30 April 2006 have been consolidated into the results of the Core Business as they have become subsidiaries of Parent Group after the completion of the Acquisitions on 30 April 2006.

Gross profit

The following tables set out the gross profit and gross profit margins of the Core Business during the Track Record Period by nature of businesses and by geographic segments:

	Year ended 31 December			Six months ended 30 June	
	2006[(1)]	2007	2008	2008	2009
	(HK$ million)			(HK$ million)	
Retail	517.8	858.8	1,106.7	573.6	559.7
Gross profit margin — retail	*79.9%*	*77.4%*	*74.4%*	*77.6%*	*73.5%*
Others	15.3	24.7	3.1	7.6	(1.6)
Gross profit margin — others	*14.3%*	*36%*	*7.4%*	*38%*	*(22.9)%*
Total	533.1	883.5	1,109.8	581.2	558.1
Gross profit margin	*70.6%*	*75.0%*	*72.6%*	*76.5%*	*72.6%*

Note:

(1) Excluding financial results of DDL Group and Green Group for the four months ended 30 April 2006. Financial results of DDL Group and Green Group after 30 April 2006 have been consolidated into the results of the Core Business as they have become subsidiaries of Parent Group after the completion of the Acquisitions on 30 April 2006.

	Year ended 31 December			Six months ended 30 June	
	2006[(1)]	2007	2008	2008	2009
	(HK$ million)			(HK$ million)	
Mainland China retail	218.0	409.5	617.1	321.8	341.0
Gross profit margin — Mainland China	*76.4%*	*79.0%*	*73.8%*	*77.9%*	*74.6%*
Hong Kong retail	200.6	333.0	373.4	189.4	171.9
Gross profit margin — Hong Kong	*81.9%*	*78.2%*	*77.6%*	*79.4%*	*73.3%*

Note:

(1) Excluding financial results of DDL Group and Green Group for the four months ended 30 April 2006. Financial results of DDL Group and Green Group after 30 April 2006 have been consolidated into the results of the Core Business as they have become subsidiaries of Parent Group after the completion of the Acquisitions on 30 April 2006.

Gross profit margin of the Core Business's retail sales during the Track Record Period was higher than that of the Core Business's other sales. The Core Business maintained a relatively stable gross profit margin for its retail sales throughout 2006, 2007 and the first half of 2008. Due to the impact of the global financial turmoil, the gross profit margin of the Core Business's retail sales dropped in the second half of 2008 (which is reflected by the fact that the gross profit margin of the Core Business's retail sales for the full year of 2008 was lower than that of the first half of 2008) and first half of 2009. The decline in the gross profit margin of the Core Business was mainly because of discounts offered in response to the global financial turmoil, which were unprecedented in terms of the accelerated and prolonged discount periods, which began earlier than the same periods in previous years for the second half of 2008 and the first half of 2009 by one to two months, and the deeper rates of discounts, in order to maintain the competitiveness of the Core Business in the market. The average rates of discounts offered in the second half of 2008 and first half of 2009 were approximately 8% and 10% higher than the same periods in previous years, respectively.

Other income

Other income of the Core Business mainly consists of consultancy fee, administrative fee income, subsidy income, and miscellaneous income.

Selling and marketing expenses

Selling and marketing expenses of the Core Business consist of store operating expenses and other selling and marketing expenses. Store operating expenses comprise store staff expenses, store rental expenses and other store expenses.

Set out below is a breakdown of selling and marketing expenses of the Core Business during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2006[1]	2007	2008	2008	2009
	(HK$ million)			(HK$ million)	
Store rental expense	145.8	249.9	328.0	158.5	178.8
as a % of retail revenue	*22.5%*	*22.5%*	*22.1%*	*21.5%*	*23.5%*
Store staff expense	45.2	82.2	123.8	58.0	68.2
as a % of retail revenue	*7.0%*	*7.4%*	*8.3%*	*7.8%*	*9.0%*
Other store expenses	40.5	81.6	116.2	52.7	50.7
as a % of retail revenue	*6.2%*	*7.4%*	*7.8%*	*7.1%*	*6.6%*
Store operating expenses	231.5	413.7	568.0	269.2	297.7
as a % of retail revenue	*35.7%*	*37.3%*	*38.2%*	*36.4%*	*39.1%*
Other selling and marketing expenses	21.4	54.8	76.1	38.8	31.6
as a % of retail revenue	*3.3%*	*4.9%*	*5.1%*	*5.2%*	*4.2%*
Total selling and marketing expenses	252.9	468.5	644.1	308.0	329.3

Note:

(1) *Excluding financial results of DDL Group and Green Group for the four months ended 30 April 2006. Financial results of DDL Group and Green Group after 30 April 2006 have been consolidated into the results of the Core Business as they have become subsidiaries of Parent Group after the completion of the Acquisitions on 30 April 2006.*

The store rental expenses of the Core Business amounted to approximately HK$145.8 million, HK$249.9 million and HK$328.0 million for each of the three years ended 31 December 2008, and approximately HK$158.5 million and HK$178.8 million for the six months ended 30 June 2008 and 2009, respectively, which represented approximately 22.5%, 22.5% and 22.1% of the total retail revenues for each of the three years ended 31 December 2008, and approximately 21.5% and 23.5% of total retail revenues for the six months ended 30 June 2008 and 2009, respectively. The rent of a majority of the Group's retail stores for the Core Business are payable in the form of variable rent which typically is either based solely on a percentage of turnover of the relevant store or in addition to a minimum fixed amount. For stores with variable rent with a minimum fixed portion, if turnover falls below a predetermined threshold, the store will pay a minimum rent. If the turnover of the store stays above such threshold, rental payment of the store will be a percentage of the turnover. For stores with variable rent with no minimum fixed portion, there is no predetermined threshold and therefore the Group has no committed rental payment. The rental payment will be a percentage of the turnover. For stores with fixed rent, rental payment does not vary with turnover and is based on an agreed amount. Most of the stores located in Mainland China typically pay a variable rent, whilst stores in Hong Kong pay either variable rent or fixed rent.

The table below sets out a summary of the proportion of the leases of the Group with rental payable in fixed and variable rent, and the year of expiry of such leases as at 30 September 2009. The information presented below is not comparable to the classification of rental expenses presented in the Accountant's Report, in which fixed rental expenses portion were included under 'rental expense — minimum lease payment' and variable rental expenses portion were included under 'rental expenses —

contingent rents'. It is because there are two types of variable rent terms: (1) the rental payment of stores under variable rent terms with a minimum fixed portion of rent were included under "rental expenses — minimum lease payment" in the Accountant's Report if their turnover falls below a predetermined threshold, whereas, if their turnover is above the predetermined threshold, the minimum fixed portion of rent were included under "rental expenses — minimum lease payment" in the Accountants' Report while the portion above the minimum fixed portion of rent were included under "rental expenses — contingent rents". (2) The rental payment of stores under variable rent terms with no minimum fixed portion of rent are included under "Variable Rent with no minimum portion" while those with a minimum fixed portion are included under "Variable Rent with minimum portion" in the table below. The rental payment of stores under fixed rent terms were included under "rental expenses — minimum lease payment" in the Accountant's Report and under "Fixed Rent" in the table below.

	no of stores					
Rental/Expiry	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
Fixed Rent	0	8	4	0	2	14
Variable Rent with minimum portion	13	47	22	9	0	91
Variable Rent with no minimum portion	22	147	48	31	0	248
	35	202	74	40	2	353

	% of stores					
Rental/Expiry	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
Fixed Rent	0.0%	2.3%	1.1%	0.0%	0.6%	4.0%
Variable Rent with minimum portion	3.7%	13.3%	6.2%	2.5%	0.0%	25.8%
Variable Rent with no minimum portion	6.2%	41.6%	13.6%	8.8%	0.0%	70.3%
	9.9%	57.2%	21.0%	11.3%	0.6%	100.0%

Although the amount of store rental expenses paid by the Group for the Core Business fluctuated during the Track Record Period, store rental expenses for the Core Business as a percentage of retail revenue in fact remained relatively stable over the same period. The store staff expenses of the Core Business amounted to approximately HK$45.2 million, HK$82.2 million and HK$123.8 million for each of the three years ended 31 December 2008, and approximately HK$58.0 million and HK$68.2 million for the six months ended 30 June 2008 and 2009, respectively, which represented approximately 7.0%, 7.4% and 8.3% of the total retail revenues for each of the three years ended 31 December 2008, and approximately 7.8% and 9.0% of the total retail revenues for the six months ended 30 June 2008 and 2009, respectively. For each of the three years ended 31 December 2008, and the six months ended 30 June 2008 and 2009, selling and marketing expenses of the Core Business represented approximately 39.0%, 42.2%, 44.3%, 41.7% and 43.3% of the total retail revenues, respectively.

Store contribution profit

The following table sets out the store contribution profit and store contribution margin of the Core Business during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2006[1]	2007	2008	2008	2009
	(HK$ million)			(HK$ million)	
Mainland China[2]	124.8	204.6	276.8	166.1	158.3
Store contribution margin — Mainland China[3]	43.8%	39.5%	33.1%	40.2%	34.6%
Hong Kong[2]	115.0	194.2	204.7	111.1	82.9
Store contribution margin — Hong Kong[3]	47.0%	46.1%	42.5%	47.9%	35.3%

Notes:

(1) Excluding financial results of DDL Group and Green Group for the four months ended 30 April 2006. Financial results of DDL Group and Green Group after 30 April 2006 have been consolidated into the results of the Core Business as they have become subsidiaries of Parent Group after the completion of the Acquisitions on 30 April 2006.

(2) Store contribution profit represents retail revenue minus retail cost of sales and store operating expenses.

(3) Store contribution margin represents store contribution profit as a percentage of retail revenue.

As shown in the table above, the store contribution margins of the Core Business for Mainland China and Hong Kong were relatively stable during 2006, 2007 and the first half of 2008. Due to the impact of the global financial turmoil, the store contribution margins for Mainland China and Hong Kong dropped significantly in the second half of 2008 (which is reflected by the fact that the store contribution margins of the Core Business for the full year of 2008 were significantly lower than those of the first half of 2008) and first half of 2009. The decline in the gross profit margin of the Core Business was mainly because of discounts offered in response to the global financial turmoil, which were unprecedented in terms of the accelerated and prolonged discount periods, which began earlier than the same periods in previous years for the second half of 2008 and the first half of 2009 by one to two months, and the deeper rates of discounts, in order to maintain the competitiveness of the Core Business in the market. The average rates of discounts offered in the second half of 2008 and first half of 2009 were approximately 8% and 10% higher than the same periods in the prior years, respectively.

Administrative expenses

Administrative expenses of the Core Business mainly consist of staff expenses (other than store staff expenses), rental expenses (other than store rental expenses), and miscellaneous expenses.

Other gains

Other gains of the Core Business consist of foreign exchange gains.

Finance income/(costs) - net

Finance income of the Core Business mainly consists of interest income on cash deposits. Finance costs of the Core Business mainly consist of interest expenses on bank loans and borrowings.

Share of profit of jointly controlled entities

The Core Business has a 50% equity interest in a number of joint ventures with Salvatore Ferragamo in South Korea, Malaysia, Singapore and Thailand. The Core Business's income from its investment in the JVs is based on the Core Business's share of profit of the JVs and is accounted for using the equity method of accounting.

Income tax expense

The Core Business has not been subject to any transfer-pricing assessment by relevant local tax authorities. All tax returns relating to the Group have been filed within the prescribed deadlines. Insofar as the Directors are aware, the Group was not involved in any tax disputes with, and did not receive any complaints from, any tax authorities as at the Latest Practicable Date.

Bermuda and the BVI

The Core Business is not subject to any income tax in the Bermuda or the BVI.

Hong Kong

The Company's Hong Kong subsidiaries in respect of the Core Business are subject to Hong Kong profits tax at the rate of 17.5% on the estimated assessable profit for the two years ended 31 December 2007 and at the rate of 16.5% on the estimated assessable profit for the year ended 31 December 2008 and the six months ended 30 June 2009.

Mainland China

The subsidiaries of the Company in Mainland China in respect of the Core Business are subject to income tax at applicable rates ranging from 15% to 33%.

On 16 March 2007, the National People's Congress of the PRC approved the new Corporate Income Tax Law ("CIT Law"), which reduces the corporate income tax rate for domestic enterprises from 33% to 25% and increases for foreign invested enterprises from 15% to 25% with effect from 1 January 2008.

With effect from 1 January 2008, pursuant to the CIT Law, dividends payable to foreign investors that are non-resident enterprises are subject to a 10% withholding tax, which may be reduced if the foreign jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. Under the Agreement between the PRC and Hong Kong, Hong Kong tax residents which hold 25% or more of an enterprise in Mainland China are entitled to a reduced dividend withholding tax rate of 5%. Accordingly, withholding tax is payable at 5% on profits of Mainland China subsidiaries earned subsequent to 1 January 2008. Dividends declared and remitted out of Mainland China from retained earnings as at 31 December 2007 were exempted from withholding tax. For jointly controlled entities, withholding tax is payable at the applicable withholding tax rate on dividends in the respective countries.

There are many transactions and calculations for which ultimate tax determination is uncertain as discussed below during the ordinary course of business in determining income tax provisions. Determining income tax provisions therefore involves judgment on the future tax treatment of certain transactions and interpretation of tax rules. Management has evaluated tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

In addition, management has taken into account the future cash flow requirements of the Group's companies in determining withholding tax provisions. The Group provides for withholding tax on undistributed earnings of its subsidiaries and jointly controlled entities when it is probable that dividends will be declared and the related withholding tax is payable in the foreseeable future. Revision of any of the preferential tax treatments that our Mainland China subsidiaries currently enjoy would also have an effect on the Group's results.

Other jurisdictions

The Group has properly accounted for all taxes in respect of other jurisdictions that it may have tax exposure such as wholesale of products to its distributor in Australia and New Zealand.

REVIEW OF OPERATING RESULTS

The following discussion is based on the results of the Core Business only. Due to the factors affecting the Group's results of operations described above, the Group's results of operations may not be indicative of its future performance. In particular, the Group's future results will not include that of the Non-core Business, which ceased to form part of the Group on 25 August 2009. Accordingly, the following discussion does not include the results of the Non-core Business.

The following is a year to year comparison of the financial results of the Core Business for the three years ended 31 December 2008 and the six months ended 30 June 2008 and 2009:

The following table presents selected financial data relating to the results of the Core Business for the three years ended 31 December 2008 and the six months ended 30 June 2008 and 2009 as extracted from the Accountant's Report set out in Appendix I to this document:

	Year ended 31 December			Six months ended 30 June	
	2006[(1)]	2007	2008	2008 (unaudited)	2009
	(HK$ million)			(HK$ million)	
Revenue	**755.2**	**1,177.7**	**1,528.4**	**759.4**	**768.4**
Cost of sales	(222.1)	(294.2)	(418.6)	(178.2)	(210.3)
Gross profit	**533.1**	**883.5**	**1,109.8**	**581.2**	**558.1**
Other income	10.1	17.9	32.7	13.5	11.9
Selling and marketing expenses	(252.9)	(468.5)	(644.1)	(308.0)	(329.3)
Administrative expenses	(97.2)	(227.9)	(323.1)	(145.1)	(140.8)
Other gains — net	3.4	16.1	19.0	28.5	0.1
Operating profit	**196.5**	**221.1**	**194.3**	**170.1**	**100.0**
Finance income	1.9	5.8	3.4	2.7	0.2
Finance costs	–	(79.5)	(50.9)	(28.5)	(19.8)
Finance income/(cost) — net	1.9	(73.7)	(47.5)	(25.8)	(19.6)
Share of profit of jointly controlled entities	32.6	40.7	42.3	26.3	12.9
Profit before income tax	**231.0**	**188.1**	**189.1**	**170.6**	**93.3**
Income tax expenses	(41.9)	(53.0)	(67.5)	(41.9)	(25.5)
Profit for the year/period	**189.1**	**135.1**	**121.6**	**128.7**	**67.8**
Attributable to:					
Equity holders of the Company	171.9	120.5	115.8	122.9	67.8
Minority interests	17.2	14.6	5.8	5.8	–
	189.1	135.1	121.6	128.7	67.8

Note:

(1) *Excluding financial results of DDL Group and Green Group for the four months ended 30 April 2006. Financial results of DDL Group and Green Group after 30 April 2006 have been consolidated into the results of the Core Business as they have become subsidiaries of Parent Group after the completion of the Acquisitions on 30 April 2006.*

Six months ended 30 June 2009 compared to six months ended 30 June 2008

Revenue

For the six months ended 30 June 2009, the revenue of the Core Business was approximately HK$768.4 million. For the six months ended 30 June 2008, the revenue of the Core Business was approximately HK$759.4 million. Such increase in revenue was mainly attributable to the increase in the number of retail stores in Greater China from 305 as at 30 June 2008 to 354 as at 30 June 2009 and was partly offset by unprecedented discounts offered in the first half of 2009 in response to the global financial turmoil in order to match the discounts offered by competitors of the Group. The increase was also offset by a decrease in revenue from the wholesale business.

Cost of sales

For the six months ended 30 June 2009, cost of sales of the Core Business amounted to approximately HK$210.3 million (representing approximately 27.4% of the revenue of the Core Business for the six months ended 30 June 2009). For the six months ended 30 June 2008, cost of sales of the Core Business amounted to approximately HK$178.2 million (representing approximately 23.5% of the revenue of the Core Business for the six months ended 30 June 2008). Such increase in cost of sales of the Core Business was mainly attributable to an increase in the cost of inventories recognised as a result of an increase in revenue and a further provision made for inventories of previous seasons in response to the downturn in the retail sector caused by the global financial turmoil, and was partly offset by a reduction in the wholesale business.

Gross profit

For the six months ended 30 June 2009, the gross profit of the Core Business was approximately HK$558.1 million (representing a gross profit margin of approximately 72.6%). For the six months ended 30 June 2008, the gross profit of the Core Business was approximately HK$581.2 million (representing a gross profit margin of approximately 76.5%). The decline in the gross profit margin of the Core Business was mainly because of (i) discounts offered in the first half of 2009 in response to the global financial turmoil, which were unprecedented in terms of the accelerated and prolonged discount period, which began earlier than the same period in previous years for the first half of 2009 by one to two months, and the deeper rates of discount, in order to match the discounts offered by competitors of the Group and (ii) an increase in the cost of sales as discussed above. The average rate of discount offered in the first half of 2009 was approximately 10% higher than the first half of 2008.

Other income

For the six months ended 30 June 2009, other income of the Core Business was approximately HK$11.9 million. For the six months ended 30 June 2008, other income of the Core Business amounted to approximately HK$13.5 million. The decrease in other income of the Core Business was mainly attributable to a decrease in subsidy income of approximately HK$3.4 million.

Selling and marketing expenses

For the six months ended 30 June 2009, selling and marketing expenses of the Core Business was approximately HK$329.3 million (representing approximately 42.9% of its revenue for the six months ended 30 June 2009). For the six months ended 30 June 2008, the selling and marketing expenses of the Core Business was approximately HK$308.0 million (representing approximately 40.6% of its revenue for the six months ended 30 June 2008). The overall increase in selling and marketing expenses of the Core Business was mainly attributable to the increase in store staff expenses due to an increase in the number of staff at store level from approximately 1,590 as at 30 June 2008 to approximately 1,760 as at 30 June 2009 and store rental expenses. The increase in store rental expense is due to the increase in number of retail stores.

Administrative expenses

For the six months ended 30 June 2009, the administrative expenses of the Core Business amounted to approximately HK$140.8 million. For the six months ended 30 June 2008, the administrative expenses of the Core Business was approximately HK$145.1 million. The overall administrative expense was stable during the period.

Other gains

For the six months ended 30 June 2009, other gains of the Core Business was approximately HK$0.1 million. For the six months ended 30 June 2008, other gains of the Core Business amounted to approximately HK$28.5 million. The modest gain in the six months ended 30 June 2009 was mainly attributable to the stabilisation of the Renminbi against the Hong Kong dollar whereas in the six months ended 30 June 2008 there had been foreign exchange gains resulting from the appreciation of Renminbi against the Hong Kong dollar.

Operating margin

For the six months ended 30 June 2009, the operating margin of the Core Business was approximately 13.0%. For the six months ended 30 June 2008, the operating margin of the Core Business was approximately 22.4%. Such decrease was mainly attributable to the impact of the global financial turmoil.

Finance income

For the six months ended 30 June 2009, the finance income of the Core Business was approximately HK$0.2 million. For the six months ended 30 June 2008, the finance income of the Core Business was approximately HK$2.7 million. This decrease was principally due to lower interest rate during the period.

Finance costs

For the six months ended 30 June 2009, the finance costs of the Core Business was approximately HK$19.8 million. For the six months ended 30 June 2008, the finance costs of the Core Business was approximately HK$28.5 million. This decrease was mainly attributable to lower borrowing rate during the period and the reduction in the amount of the outstanding principal of the Assumed Loan as a repayment was made in January 2008.

Share of profit of jointly controlled entities

For the six months ended 30 June 2009, the share of profit from jointly controlled entities of the Core Business was approximately HK$12.9 million. For the six months ended 30 June 2008, the share of profit from jointly controlled entities of the Core Business was approximately HK$26.3 million. This substantial decrease of approximately 51.0% was mainly attributable to the decrease in profits of jointly controlled entities and the global financial turmoil, which adversely affected the business environment of jointly controlled entities and led to a depreciation of the Korean Won.

Income tax expense

For the six months ended 30 June 2009, the Core Business recorded an income tax expense of approximately HK$25.5 million (reflecting an effective tax rate of approximately 27.3%). For the six months ended 30 June 2008, the Core Business recorded an income tax expense of approximately HK$41.9 million (reflecting an effective tax rate of approximately 24.6%). This increase in effective tax rate was primarily attributable to the reduction in the profits of jointly controlled entities, which make up the non-taxable income in the financial statements and the non-recognition of tax losses of a subsidiary in Singapore.

Profit attributable to the equity holders of the Company

For the six months ended 30 June 2009, profit attributable to the equity holders of the Company was approximately HK$67.8 million. For the six months ended 30 June 2008, profit attributable to the equity holders of the Company was approximately HK$122.9 million. For the six months ended 30 June 2009, the net profit margin of the Core Business was approximately 8.8%. For the six months ended 30 June 2008, the net profit margin of the Core Business was approximately 16.9%. Such decrease was mainly attributable to the impact of the global financial turmoil.

Year ended 31 December 2008 compared to year ended 31 December 2007

Revenue

For the year ended 31 December 2008, the revenue of the Core Business was approximately HK$1,528.4 million. For the year ended 31 December 2007, the revenue of the Core Business was approximately HK$1,177.7 million. Such increase in revenue was mainly attributable to the increase in same-store sales growth for the year ended 31 December 2008 as compared to the same period in the previous year and the increase in the number of retail stores in Greater China from 292 as at 31 December 2007 to 345 as at 31 December 2008.

Cost of sales

For the year ended 31 December 2008, cost of sales of the Core Business amounted to approximately HK$418.6 million (representing approximately 27.4% of the revenue of the Core Business for 2008). For the year ended 31 December 2007, cost of sales of the Core Business amounted to approximately HK$294.2 million (representing approximately 25.0% of the revenue of the Core Business for 2007). The increase in the cost of sales was mainly attributable to an increase in revenue and a further provision made for inventory of previous seasons in response to the downturn in the retail sector caused by the global financial turmoil.

Gross profit

For the year ended 31 December 2008, the gross profit of the Core Business was approximately HK$1,109.8 million (representing a gross profit margin of approximately 72.6%). For the year ended 31 December 2007, the gross profit of the Core Business was approximately HK$883.5 million (representing a gross profit margin of approximately 75.0%). The gross profit margin of the Core Business declined mainly because of (i) discounts offered in the second half of 2008 across the retail sector in response to the global financial turmoil, which were unprecedented in terms of the accelerated and prolonged discount period, which began earlier than the same period in previous years for the second half of 2008 by one to two months, and the deeper rates of discount, in order to match the discounts offered by competitors of the Group and (ii) an increase in the cost of sales as discussed above. The average rate of discount offered in the second half of 2008 was approximately 8% higher than the second half of 2007.

Other income

For the year ended 31 December 2008, other income of the Core Business was approximately HK$32.7 million. For the year ended 31 December 2007, other income of the Core Business amounted to approximately HK$17.9 million. The increase in other income for 2008 was mainly attributable to an increase in subsidy income of approximately HK$15.4 million.

Selling and marketing expenses

For the year ended 31 December 2008, selling and marketing expenses of the Core Business was approximately HK$644.1 million (representing approximately 42.1% of its revenue for 2008). For the year ended 31 December 2007, the selling and marketing expenses of the Core Business was approximately HK$468.5 million (representing approximately 39.8% of its revenue for 2007). The overall increase in selling and marketing expenses in 2008 was mainly attributable to (i) the increase in store-related expenses as a result of an increase in the number of retail stores and hence an increase in the number of staff at store level from approximately 1,360 as at 31 December 2007 to approximately 1,740 as at 31 December 2008; and (ii) an increase in marketing and promotional expenses mainly attributable to more spendings on media advertising and visual merchandising, which was in line with the growth in the revenue of the Core Business.

Administrative expenses

For the year ended 31 December 2008, the administrative expenses of the Core Business amounted to approximately HK$323.1 million. For the year ended 31 December 2007, the administrative expenses of the Core Business was approximately HK$227.9 million. The overall increase in administrative expenses in 2008 was mainly attributable to the enhancement and expansion of the brand management and the back-end support in order to support the growth and development of the Core Business such as the opening and expansion of regional offices in Shanghai, Beijing, Chengdu and Guangzhou and the engagements of more consultants and the dedicated corporate compliance team. These have resulted in (i) an increase in staff expenses as headcounts and average salaries increased and also the full year impact of the increase in headcounts in 2007; (ii) an increase in rentals and depreciation as bigger and more offices were occupied and new furniture, fittings and equipments were bought; and (iii) an increase in professional fees due to the costs of the corporate compliance team and increase in the number of consultants. In addition, the provision for doubtful debt of approximately HK$3.8 million mainly relating to the uniform business and a provision of HK$11.4 million made in respect of probable additional costs payable by the Group such as VAT and custom duty, also caused an increase in administrative expenses.

Other gains

For the year ended 31 December 2008, other gains of the Core Business was approximately HK$19.0 million. For the year ended 31 December 2007, other gains of the Core Business amounted to approximately HK$16.1 million. The increase in other gains for 2008 was mainly attributable to the net increase in foreign exchange gains resulting from the appreciation of Renminbi against the Hong Kong dollar.

Operating margin

For the year ended 31 December 2008, the operating margin of the Core Business was approximately 12.7%. For the year ended 31 December 2007, the operating margin of the Core Business was approximately 18.8%. Such decrease was mainly attributable to the full year effect of investment in infrastructure coupled with the impact of the global financial turmoil.

Finance income

For the year ended 31 December 2008, the finance income of the Core Business was approximately HK$3.4 million. For the year ended 31 December 2007, the finance income of the Core Business was approximately HK$5.8 million. This decrease was principally due to the decrease in bank balance and a decrease in interest rate.

Finance costs

For the year ended 31 December 2008, the finance costs of the Core Business was approximately HK$50.9 million. For the year ended 31 December 2007, the finance costs of the Core Business was approximately HK$79.5 million. The decrease in the finance costs of the Core Business was mainly attributable to the reduction of the amount of the outstanding principal of the Assumed Loan as a repayment was made in January 2008 and a decrease in borrowing rate.

Share of profit of jointly controlled entities

For the year ended 31 December 2008, the share of profit from jointly controlled entities of the Core Business was approximately HK$42.3 million. For the year ended 31 December 2007, the share of profit from jointly controlled entities of the Core Business was approximately HK$40.7 million. This increase of approximately 3.9% was mainly attributable to business growth in South Korea and other countries in the South East Asia regions and partially offset by the depreciation in the Korean Won.

Income tax expense

For the year ended 31 December 2008, the Core Business recorded an income tax expense of approximately HK$67.5 million (reflecting an effective tax rate of approximately 35.7%). For the year ended 31 December 2007, the Core Business recorded an income tax expense of approximately HK$52.9 million (reflecting an effective tax rate of approximately 28.1%). The increase in effective tax rate in 2008 was primarily attributable to a withholding tax provision of HK$22.0 million made for distributable profits of Mainland China subsidiaries and jointly controlled entities which was calculated based on a tax rate of 5% on profits earned subsequent to 1 January 2008 for Mainland China subsidiaries, and the applicable withholding tax rate on dividends in the respective countries for jointly controlled entities. The Group provides for withholding tax on undistributed earnings of its subsidiaries and jointly controlled entities when it is probable that dividends will be declared and the related withholding tax is payable in the foreseeable future.

Profit attributable to the equity holders of the Company

For the year ended 31 December 2008, profit attributable to the equity holders of the Company was approximately HK$115.8 million. For the year ended 31 December 2007, profit attributable to the equity holders of the Company was approximately HK$120.5 million. For the year ended 31 December 2008, the net profit margin of the Core Business was approximately 8.0%. For the year ended 31 December 2007, the net profit margin of the Core Business was approximately 11.5%. Such decrease was mainly attributable to the impact of the global financial turmoil.

Year ended 31 December 2007 compared to year ended 31 December 2006

As the Acquisitions were completed on 30 April 2006, the operating results for the periods discussed below are not directly comparable. See the paragraph headed "Non-comparability of the Results" in this section above.

Revenue

For the year ended 31 December 2007, the revenue of the Core Business was approximately HK$1,177.7 million. For the year ended 31 December 2006, the revenue of the Core Business was approximately HK$755.2 million. Such increase in revenue was mainly attributable to (i) the inclusion of DDL Group and Green Group's full year results for 2007 as opposed to eight months' results for 2006; (ii) the increase in the number of retail stores in 2007 from 225 at the start of 2007 to 292 at the end of 2007 and (iii) an increase in the promotional and marketing activities of the Core Business in 2007, and was partly offset by a decrease in revenue from the wholesale business. The increase in revenue attributable to the opening of new retail stores was not in proportion to the increase in the number of retail stores, as the majority of the new retail stores were opened in the second half of 2007. The costs for setting up new retail stores did not affect the profit margin as such costs were regarded as capital expenditure and were therefore capitalised.

Cost of sales

For the year ended 31 December 2007, cost of sales of the Core Business amounted to approximately HK$294.2 million (representing approximately 25.0% of the revenue of the Core Business for 2007). For the year ended 31 December 2006, cost of sales of the Core Business amounted to approximately HK$222.1 million (representing approximately 29.4% of the revenue of the Core Business for 2006). This increase was in line with the growth in the revenue of the Core Business.

Gross profit

For the year ended 31 December 2007, the gross profit of the Core Business was approximately HK$883.5 million (representing a gross profit margin of approximately 75.0%). For the year ended 31 December 2006, the gross profit of the Core Business was approximately HK$533.1 million (representing a gross profit margin of approximately 70.6%). The Core Business has successfully increased its gross profit margin to 75.0% mainly because of a significant reduction in lower margin sales from wholesale business and an increase in the higher margin retail sales in 2007.

Other income

For the year ended 31 December 2007, other income of the Core Business was approximately HK$17.9 million. For the year ended 31 December 2006, other income of the Core Business amounted to approximately HK$10.1 million. The increase in other income for 2007 was mainly attributable to the provision of administrative services to members of Parent Group, and claims on purchases of raw materials.

Selling and marketing expenses

For the year ended 31 December 2007, selling and marketing expenses of the Core Business was approximately HK$468.5 million (representing approximately 39.8% of its revenue for 2007). For the year ended 31 December 2006, the selling and marketing expenses was approximately HK$252.9 million (representing approximately 33.5% of its revenue for 2006). The overall increase in selling and marketing expenses in 2007 was mainly attributable to (i) the inclusion of the full year results of DDL Group and Green Group for 2007 as opposed to eight months' results for 2006; (ii) the increase in store staff expenses, logistic costs and store rental expenses resulting from a combination of the increase in number of retail stores and an increase in the market rates of rental; and (iii) an increase in promotional and marketing expenses; and (iv) significant investments in infrastructure undertaken in 2007 to build a platform for growth going forward, such as the setting up of a real-time POS system and an expansion of dedicated brand management teams. The costs for setting up new retail stores did not affect the profit margin as such costs were regarded as capital expenditure and were therefore capitalised.

Administrative expenses

For the year ended 31 December 2007, the administrative expenses of the Core Business amounted to approximately HK$227.9 million. For the year ended 31 December 2006, the administrative expenses of the Core Business was approximately HK$97.2 million. The overall increase in administrative expense in 2007 was mainly due to (i) the inclusion of the full year results of DDL Group and Green Group for 2007 as opposed to eight months' results for 2006; and (ii) the increase in staff expenses, rental expenses and other expenses as a result of the expansion of the teams which managed the dedicated business streams to support the establishment, growth and management of the Brands. In particular, the increase in staff expenses in 2007 was a result of the decision of the Group to revamp its centralised operational and back-office infrastructure for the Core Business which involved increasing the number of support staff. Such increase in administrative expenses contributed to the establishment of a sustainable "plug-and-play" platform to provide future business scalability.

Other gains

For the year ended 31 December 2007, other gains of the Core Business was approximately HK$16.1 million. For the year ended 31 December 2006, other gains of the Core Business amounted to approximately HK$3.4 million. The increase in other gains for 2007 was mainly attributable to the net increase in foreign exchange gains resulting from the appreciation of Renminbi against the Hong Kong dollar.

Operating margin

For the year ended 31 December 2007, the operating margin of the Core Business was approximately 18.8%. For the year ended 31 December 2006, the operating margin of the Core Business was approximately 26.0%. Such decrease was mainly attributable to the increase in selling and marketing expenses, and the administrative expenses as mentioned above.

Finance income

For the year ended 31 December 2007, the finance income of the Core Business was approximately HK$5.8 million. For the year ended 31 December 2006, the finance income of the Core

Business was approximately HK$1.9 million. This increase was principally due to higher bank balances which was primarily due to the fund raising exercise undertaken by the Company towards the end of 2007.

Finance costs

For the year ended 31 December 2007, the finance costs of the Core Business was approximately HK$79.5 million, which was mainly attributable to an increase in bank borrowings arising from the assumption of the Assumed Loan by the Group from Parent Group in January 2007. The Core Business did not incur any finance cost in 2006.

Share of profit of jointly controlled entities

For the year ended 31 December 2007, the share of profit from jointly controlled entities of the Core Business was approximately HK$40.7 million. For the year ended 31 December 2006, the share of profit from jointly controlled entities of the Core Business was approximately HK$32.6 million. This substantial increase of approximately 24.8% was mainly attributable to the increase in the number of their retail stores.

Income tax expense

For the year ended 31 December 2007, the Core Business recorded an income tax expense of approximately HK$52.9 million (reflecting an effective tax rate of approximately 28.1%). For the year ended 31 December 2006, the Core Business recorded an income tax expense of approximately HK$41.9 million (reflecting an effective tax rate of approximately 18.1%). The increase in effective tax rate in 2007 was primarily attributable to the non-deductible interest expense of approximately HK$79.5 million relating to the initial acquisitions of DDL Group and Green Group which was capital in nature.

Profit attributable to the equity holders of the Company

For the year ended 31 December 2007, profit attributable to the equity holders of the Company was approximately HK$120.5 million. For the year ended 31 December 2006, profit attributable to the equity holders of the Company was approximately HK$171.9 million. For the year ended 31 December 2007, the net profit margin of the Core Business was approximately 11.5%. For the year ended 31 December 2006, the net profit margin of the Core Business was approximately 25.0%. Such decrease was mainly attributable to the increase in finance costs, selling and marketing expenses, and the administrative expenses as mentioned above.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL RESOURCES

Cash flows of the Core Business

To date, the Core Business has funded its operations through proceeds from sales of its products, capital contribution from shareholders, and borrowings. The following table is a summary of the selected cash flow data of the Core Business for the three years ended 31 December 2008 and the six months ended 30 June 2008 and 2009:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	(HK$ million)			(HK$ million)	
Net cash inflow/(outflow) from operating activities	49.0	62.5	(13.7)	(19.5)	170.4
Net cash inflow/(outflow) from investing activities	152.3	(98.4)	(212.3)	(122.7)	2.7
Net cash (outflow)/inflow from financing activities	(73.9)	706.0	(449.3)	(457.2)	(15.1)
Net increase/(decrease) in cash and cash equivalents	127.4	670.1	(675.3)	(599.4)	158.0
Cash and cash equivalents at the end of the year/period	127.4	797.5	122.2	198.1	280.2

Operating activities

The operating cash inflows of the Core Business were principally generated from the retail sale of its products.

For the six months ended 30 June 2009, the profit before income tax of the Core Business was approximately HK$93.3 million while the Core Business recorded a net cash inflow from operating activities of approximately HK$170.4 million. The difference of HK$77.1 million was mainly due to the decrease in working capital of approximately HK$71.7 million and an adjustment for share of profit of jointly controlled entities of approximately HK$12.9 million, partly offset by an adjustment for interest expenses of approximately HK$19.8 million and an adjustment for depreciation of approximately HK$28.3 million. The decrease in working capital was principally a result of the decrease in inventories of approximately HK$55.1 million, decrease in trade and other receivables of approximately HK$64.0 million, decrease in trade and other payables of approximately HK$57.3 million and increase in net amount due from related companies of approximately HK$1.1 million. The decrease in inventories for the six months ended 30 June 2009 was primarily attributable to clearance of inventories and decrease in purchases. The decrease in trade and other receivables was due to improved cash collections from department stores and lower sales in June 2009 as compared to December 2008 due to seasonality effects. The decrease in trade and other payables was mainly the result of a decrease in trade payables of approximately HK$13.2 million and decrease of accrued expenses of approximately HK$33.1 million.

For the year ended 31 December 2008, the profit before income tax of the Core Business was approximately HK$189.1 million while the Core Business recorded a net cash outflow from operating activities of approximately HK$13.7 million. The difference of HK$202.8 million was mainly due to the increase in working capital of approximately HK$222.1 million and an adjustment for share of profit of jointly controlled entities of approximately HK$42.3 million, partly offset by an adjustment for interest expenses of approximately HK$50.9 million and an adjustment for depreciation of approximately HK$58.9 million. The increase in working capital was principally a result of the increase in inventories of approximately HK$117.1 million, increase in trade and other receivables of approximately HK$46.8 million, increase in trade and other payables of approximately HK$16.7 million and increase in net amount due from related companies of approximately HK$74.9 million.

The increase in inventories in 2008 was primarily attributable to the increase in the number of retail stores of the Core Business from 292 as at 31 December 2007 to 345 as at 31 December 2008 and the maintenance of a higher inventory level to avoid stock shortage. The increase in trade and other receivables was also due to an increase in the number of retail stores of the Core Business. The increase in trade and other payables was mainly the result of a decrease of accrued expenses of approximately HK$24.4 million.

For the year ended 31 December 2007, the profit before income tax of the Core Business was approximately HK$188.1 million while the Core Business recorded a net cash inflow from operating activities of approximately HK$62.5 million. The difference of HK$125.6 million was mainly due to the increase in working capital of approximately HK$128.6 million and an adjustment for share of profit of jointly controlled entities of approximately HK$40.7 million, partly offset by an adjustment for interest expenses of approximately HK$79.5 million and an adjustment for depreciation of approximately HK$30.6 million. The increase in working capital was principally a result of the increase in inventories of approximately HK$225.2 million, increase in trade and other receivables of approximately HK$27.0 million, increase in trade and other payables of approximately HK$117.2 million and decrease in net amount due from related companies of approximately HK$6.4 million. The increase in inventories in 2007 was primarily attributable to the increase in the number of retail stores of the Core Business from 225 as at 31 December 2006 to 292 as at 31 December 2007 and the maintenance of a higher inventory level to avoid stock shortage. The increase in trade and other receivables was also due to an increase in the number of retail stores of the Core Business. The increase in trade and other payables was mainly the result of (i) an increase in trade payables of approximately HK$46.5 million and accrued expenses of approximately HK$83.2 million which were in line with the expansion of the Core Business; and (ii) a decrease in dividend payable to previous shareholders of approximately HK$164.8 million.

For the year ended 31 December 2006, the profit before income tax of the Core Business was approximately HK$231.0 million. For the year ended 31 December 2006, the Core Business recorded a net cash inflow from operating activities of approximately HK$49.0 million, which was mainly due to the increase in working capital of approximately HK$123.6 million and an adjustment for share of profit of jointly controlled entities of approximately HK$32.6 million, partly offset by an adjustment for depreciation of approximately HK$12.9 million. The increase in working capital was primarily attributable to the increase in inventories of approximately HK$26.5 million, increase in trade and other receivables of approximately HK$36.0 million and increase in amount due from related companies of approximately HK$62.5 million. The increase in inventories in 2006 was primarily attributable to the increase in the number of retail stores of the Core Business from 217 as at 1 May 2006 to 225 as at 31 December 2006.

Investing activities

The investing activities of the Core Business mainly consist of investments in property, plant and equipment, acquisitions of subsidiaries and disposal of investments. During the Track Record Period, the Core Business invested a substantial amount of money in order to expand its retail network. During the period from 1 May 2006 to 30 June 2009, the number of retail stores of the Core Business in Greater China increased from 217 to 354.

For the six months ended 30 June 2009, the net cash generated from investing activities by the Core Business was approximately HK$2.7 million, which was mainly attributable to dividend received from jointly controlled entities of HK$11.9 million, offset by the renovation of new and existing retail stores of approximately HK$9.2 million.

For the year ended 31 December 2008, the net cash used in investing activities by the Core Business was approximately HK$212.3 million, which was mainly attributable to (i) the renovation of new and existing retail stores and the acquisition of computer systems to support the expanded business amounting to approximately HK$84.1 million and (ii) the acquisition of intangible assets attributable to the Kent & Curwen acquisition amounting to approximately HK$129.5 million in aggregate.

For the year ended 31 December 2007, the net cash used in investing activities by the Core Business was approximately HK$98.4 million, which was mainly attributable to the renovation of new retail stores and the acquisition of computer systems to support the expanded business amounting to approximately HK$104.2 million in aggregate.

For the year ended 31 December 2006, the net cash inflow from investing activities by the Core Business was approximately HK$152.3 million, which was mainly attributable to the inclusion of the cash balances of approximately HK$153.1 million in aggregate of DDL Group and Green Group into the Core Business upon completion of the Acquisitions.

Financing activities

The financing activities of the Core Business mainly consists of receipts and repayments of loans, payment of dividends and capital contribution from shareholders.

For the six months ended 30 June 2009, the net cash used in financing activities by the Core Business was approximately HK$15.1 million, which was mainly attributable to the payment of final dividends to shareholders amounting to HK$57.8 million which was partly offset by a net increase of bank borrowing of HK$42.7 million.

For the year ended 31 December 2008, the net cash used in financing activities by the Core Business was approximately HK$449.3 million, which was mainly attributable to the repayment of borrowings of approximately HK$855.7 million, partly offset by proceeds from new borrowings and issue of shares to investors amounting to approximately HK$489.8 million.

For the year ended 31 December 2007, the net cash inflow from financing activities by the Core Business was approximately HK$706.0 million, which was mainly attributable to proceeds from the issue of shares to the investors. This also increased the segment assets attributable to the Hong Kong operations as at 31 December 2007. The proceeds from the issue of shares were primarily used to repay part of the bank borrowings in January 2008.

For the year ended 31 December 2006, the net cash outflow from financing activities by the Core Business was approximately HK$73.9 million, which was mainly attributable to the payment of dividends of approximately HK$74.0 million.

ANALYSIS OF INVENTORIES, TRADE RECEIVABLES AND TRADE PAYABLES OF THE CORE BUSINESS

Inventories and average inventory turnover days

	As at/for the year ended 31 December			As at/for the six months ended 30 June
	2006(2)	2007	2008	2009
Inventories balance (HK$ million)	193.2	418.4	537.6	482.5
Average inventory turnover days(1)	107	379	417	443

Notes:

(1) *Average inventory turnover days is calculated by dividing average inventories by cost of sales and then multiplying the result by the number of days in the relevant period. The number of days in a relevant period is 365 for any 12-month period (save for the 12-month period ended 31 December 2008, for which the number of days is 366), 245 for the eight-month period ended 31 December 2006 and 181 for the six-month period ended 30 June 2009.*

(2) *The figures relate to the period of eight months commenced from 1 May 2006 after Parent Group acquired DDL Group and Green Group pursuant to the Acquisitions.*

The inventories of the Core Business as at 31 December 2008 and 30 June 2009 were approximately HK$537.6 million and HK$482.5 million, respectively. Such decrease in inventories of the Core Business of approximately 10.2% as compared to inventories as at 31 December 2008 was primarily due to clearance of inventories and decrease in purchases of raw materials and finished goods. Of the HK$482.5 million of inventories as at 30 June 2009, HK$66.1 million were subsequently used or sold during the three months ended 30 September 2009.

The inventories of the Core Business as at 31 December 2006, 2007 and 2008 were approximately HK$193.2 million, HK$418.4 million and HK$537.6 million, respectively. The increase in inventories of the Core Business in 2007 of approximately 116.6% as compared to 2006 was primarily due to an increase in the number of retail stores towards the year end and the strategy of the Core Business to maintain higher levels of inventories in order to avoid stock shortage and lost opportunities. The average level of inventories in the first half of the year is not directly comparable with the second half of the year due to seasonality effects as sales levels are generally higher during the Christmas season.

The average inventory turnover days of the Core Business increased from 379 days for the year ended 31 December 2007 to 417 days for the year ended 31 December 2008, which was primarily attributable to the maintenance of a higher inventory level to avoid stock shortage and a large portion of the new retail stores being opened in the last quarter of 2007 and for the year 2008. The increase in the average inventory turnover days to 443 days for the six months ended 30 June 2009 was also primarily due to the expansion in the retail network as well as the total sales of the Group as a whole falling well below expectations throughout the second half of 2008 and the first half of 2009 due to the global financial turmoil. The Group is taking practical steps to keep its inventory levels in check. The inventory policy of the Group is set out in more detail below.

As at 30 June 2009, there were raw materials carried at net realisable value. Management of the Core Business performed a specific review of all raw materials as at 30 June 2009 and were satisfied that raw materials were carried at the lower of cost and net realisable value. Management considers the provision for impairment losses on raw materials for the Core Business amounting to approximately HK$4.4 million as at 30 June 2009 to be adequate.

A substantial part of the inventories of the Core Business comprises finished goods. Management performed a specific review of all finished goods for the Core Business as at 30 June 2009 and were satisfied that finished goods were carried at the lower of cost and net realisable value. Management considers the provision for impairment losses on finished goods for the Core Business amounting to approximately HK$37.9 million as at 30 June 2009 to be adequate in view of the Group's inventory control policy as set out below:

(i) the products sold by the Core Business are less sensitive to rapid changes in fashion trends as it operates in the high-to-luxury end menswear segment and some past season products continue to be sold in the retail stores other than factory outlets;

(ii) Management of the Core Business (including the Chief Financial Officer and Managing Director of the Group) meets monthly to review the level of aged inventories and sets specific goals to reduce any excess aged products, which varies from time to time depending on seasonality effects, for instance, by setting up concession counters at department stores to hold bargain sales and organising private sale events for staff of the Group. The Group evaluates sales and demand levels from time to time to determine the ideal inventory level and form relevant strategies to achieve such target level. The Group also aims to make more precise estimates of the sales of each season and the level of raw materials and finished products required to ensure that only an optimum level of inventories is held in order to reduce inventory holding periods and tighten control over the procurement process; and

(iii) the Core Business has set up factory outlets across Greater China to sell any excess past season products.

The Group is responsive to seasonal and swift changes in consumer demand and therefore has no rigid inventory control policy or pre-set inventory level. In order to reduce excess aged inventories, the Group regularly reviews the ageing condition of its inventories, and considers whether a provision is necessary semi-annually. Aged inventories will be fully provided for by the 10th season (that is, in approximately five years). In order to control its inventory levels, the Group has adopted a more structured approach namely through the launch of a procurement information system in July 2009. The procurement information system allows the Group to better monitor its procurement process so that the timing of purchases and production of finished goods are optimised to reduce inventory holding days. It also enables the Group to more accurately determine the quantity of inventories to be purchased and the volume of finished goods to be produced based on the current level of inventories and the sales forecast. The system also gathers information such as historical sales data from the POS system to facilitate brand management and to better forecast the sales mix for each season, which helps to prevent the purchase of inventories for, and production of, unpopular product categories. With this system in place, the Group is able to better manage the volume and the number of holding days for its inventories, and hold only an optimal level of inventories for each season. Further, the Group also intends to increase the number of factory outlets and the size of its retail network to facilitate the clearance of aged inventories.

Trade receivables and average trade receivables turnover days

	As at/for the year ended 31 December			As at/for the six months ended 30 June
	2006[2]	2007	2008	2009
Trade receivables balance (HK$ million)	116.6	150.9	174.4	103.5
Average trade receivables turnover days[1]	19	41	39	33

Notes:

(1) Average trade receivables turnover days is calculated by dividing average trade receivables by revenue and then multiplying the result by the number of days in the relevant period. The number of days in a relevant period is 365 for any 12-month period (save for the 12-month period ended 31 December 2008, for which the number of days is 366), 245 for the eight-month period ended 31 December 2006 and 181 for the six-month period ended 30 June 2009.

(2) The figures relate to the period of eight months commenced from 1 May 2006 after Parent Group acquired DDL Group and Green Group pursuant to the Acquisitions.

The trade receivables of the Core Business as at 31 December 2008 and 30 June 2009 were approximately HK$174.4 million and HK$103.5 million, respectively. Such decrease was mainly due to the higher sales recorded in December 2008 as compared to June 2009 arising from seasonality effects. Of the HK$103.5 million of trade receivables as at 30 June 2009, HK$98.8 million were subsequently settled during the two months ended 31 August 2009.

The trade receivables of the Core Business as at 31 December 2006, 2007 and 2008 were approximately HK$116.6 million, HK$150.9 million and HK$174.4 million, respectively. The increase in trade receivables in 2008 of approximately 15.6% as compared to 2007 was primarily due to an increase in sales as a result of improvement in same-store sales growth as compared to the same period in the previous year and the opening of new retail stores in department stores in 2008.

The provision for impairment of trade receivables of the Core Business as at 31 December 2006, 2007 and 2008, and 30 June 2009 were approximately HK$1.4 million, HK$0.5 million, HK$4.2 million and HK$1.8 million, respectively. Management of the Core Business performs regular reviews of trade receivables and provides against specific doubtful accounts. In determining provision for trade receivables, management takes into account the credit history and payment pattern of their customers as well as their on-going relationship with the Group. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The decrease in the provision for impairment of trade receivables as at 30 June 2009 as compared to 31 December 2008 was a result of doubtful accounts relating to the uniform business in the prior year that were subsequently collected in 2009. The increase in the provision for impairment of trade receivables as at 31 December 2008 as compared to 31 December 2007 was a result of the provision made for doubtful accounts also relating to the uniform business. The decrease in the provision for impairment of trade receivables as at 31 December 2007 as compared to 31 December 2006 was a result of one specific account in the prior year that was subsequently collected in 2007 and some in 2008. The related provision for impairment of trade receivables was therefore reversed in 2007 and 2008, respectively.

The accounts receivables derived from revenue of retail customers, namely department stores, in respect of the Core Business for the six months ended 30 June 2009 and each of the three years ended 31 December 2008 amounted to approximately HK$99.7 million, HK$111.4 million, HK$136.9 million and HK$167.3 million, respectively. The accounts receivable derived from revenue of corporate customers, namely customers for the uniform and wholesale business, in respect of the Core Business for the six months ended 30 June 2009 and each of the three years ended 31 December 2008 amounted to approximately HK$3.8 million, HK$5.2 million, HK$14.0 million and HK$7.1 million respectively. The Group's concessionaire sales through department stores are generally collectible within 30 days from the invoice date while the sales to corporate customers are generally on credit terms ranging from 30 to 90 days.

The average trade receivables turnover days decreased from 39 days for the year ended 31 December 2008 to 33 days for the six months ended 30 June 2009. Such decrease was mainly due to higher sales recorded in December 2008 as compared to June 2009.

The average trade receivables turnover days decreased from 41 days for the year ended 31 December 2007 to 39 days for the year ended 31 December 2008. Such decrease was mainly due to an improvement in cash collection from department stores.

Trade payables and trade payables turnover days

	As at/for the year ended 31 December			As at/for the six months ended 30 June
	2006[2]	2007	2008	2009
Trade payables balance (HK$ million)	12.1	58.6	50.9	37.7
Average trade payables turnover days[1]	7	44	48	38

Notes:

(1) Average trade payables turnover days is calculated by dividing average trade payables by cost of sales and then multiplying the result by the number of days in the relevant period. The number of days in a relevant period is 365 for any 12-month period (save for the 12-month period ended 31 December 2008, for which the number of days is 366), 245 for the eight-month period ended 31 December 2006 and 181 for the six-month period ended 30 June 2009.

(2) The figures relate to the period of eight months commenced from 1 May 2006 after Parent Group acquired DDL Group and Green Group pursuant to the Acquisitions.

The trade payables of the Core Business as at 31 December 2006, 2007 and 2008 and as at 30 June 2009 were approximately HK$12.1 million, HK$58.6 million, HK$50.9 million and HK$37.7 million, respectively. The trade payables of the Core Business followed an upward trend during the years ended 31 December 2006 and 2007, which was mainly due to an extension of the credit period for purchases and an increase in purchases of raw materials driven by the increase in the number of retail stores. The trade payables of the Core Business dropped slightly as a result of earlier delivery schedules for spring/summer inventory in 2008 to avoid inventory shortage in the peak season which resulted in settlements being made to suppliers before 31 December 2008. The lower trade payables of the Core Business as at 30 June 2009 as compared to that of 31 December 2008 was mainly due to a decrease in purchases of raw materials and finished goods during the six months ended 30 June 2009. Of the HK$37.7 million of trade payables as at 30 June 2009, HK$28.9 million were subsequently settled during the two months ended 31 August 2009.

The average trade payables turnover days of the Core Business were approximately 44 days and 48 days for each of the two years ended 31 December 2008, respectively. The average trade payables turnover days decreased to 38 days for the six months ended 30 June 2009. The decrease in average trade payables turnover days of the Core Business was mainly due to a decrease in purchases of raw materials and finished goods during the six months ended 30 June 2009.

The total other payables and accrued expenses of the Core Business as at 31 December 2006, 2007 and 2008, and 30 June 2009 were approximately HK$222.8 million, HK$225.4 million, approximately HK$229.7 million and HK$208.5 million, respectively. Refer to Appendix I of this document for a breakdown of the balance.

The increase in royalties payable from HK$11.7 million as at 31 December 2006 to HK$73.1 million as at 31 December 2007 is due to the renewal of the licence agreement with Gieves & Hawkes in 2007, giving rise to the recognition of an intangible asset and royalties payable based on the minimum payments. There is an increase in the non-current portion of the royalties payable as the licence agreement is for a period of seven years. The decrease in royalties payable from HK$73.1 million as at 31 December 2007 to HK$62.1 million as at 31 December 2008 and the further decrease to HK$57.5 million as at 30 June 2009 is due to payment of royalty to the licence owner.

The increase in accrued expenses from HK$39.7 million as at 31 December 2006 to HK$137.7 million as at 31 December 2007 is due to (i) an increase in accrued interest as a result of the assumption of the Assumed Loan by the Group from Parent Group, (ii) an increase in employee benefit liabilities, and (iii) an increase in store opening costs as a result of the expansion in the business. The decrease in accrued expenses from HK$139.7 million as at 31 December 2008 to HK$121.8 million as at 30 June 2009 is mainly due to the decrease in accrued bonus as bonus is paid annually in the second quarter of each year.

DEFERRED TAXATION

The Core Business's deferred tax assets as at 31 December 2006, 2007 and 2008, and 30 June 2009 were approximately HK$3.1 million, HK$32.1 million, HK$61.2 million and HK$56.1 million, respectively. The fluctuations in deferred tax assets during the said periods were mainly due to the increase in unrealised profit on inter-company sales that remained in the Core Business's inventory at year end.

CAPITAL EXPENDITURES

The capital expenditure of the Core Business for the six months ended 30 June 2009 was approximately HK$20.4 million, of which HK$11.0 million was subsidised by landlords and was mainly used for the opening of new retail stores. The capital expenditure of the Core Business for the years ended 31 December 2007 and 2008 were approximately HK$104.2 million and HK$84.1 million respectively, which were mainly used for the renovation of retail stores and purchase of information technology systems.

The Core Business's planned capital expenditure for the year ending 31 December 2009 is approximately HK$30.0 million, which is planned to be used primarily for the opening of new retail stores. The Company plans to finance its capital expenditures with a combination of internally generated cash flow, proceeds from the [●], and bank borrowings.

COMMITMENTS

Capital commitments

The following table sets out the Core Business's outstanding capital commitments as at the dates indicated:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	(HK$ million)			(HK$ million)
Contracted but not provided for:				
— Property, plant and equipment	4.1	3.0	0.1	0.1
— Computer software	0	2.9	0.6	0.6
— Acquisition of a subsidiary	0	0	0	0
	4.1	5.9	0.7	0.7

On 30 January 2008, the Group entered into a conditional agreement with Branded Lifestyle International Ltd. to acquire 100% equity interest of L&F Branded Lifestyle (Singapore) Pte Ltd. at a consideration of SGD493,000 (approximately HK$2,640,000). Completion of the transaction took place on [●] 2009.

Operating lease commitments

As at the dates presented, the Core Business's future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	(HK$ million)			(HK$ million)
Not later than one year	94.9	126.9	156.2	149.0
Later than one year but not later than five years	61.3	128.4	128.9	114.3
	156.2	255.3	285.1	263.3

WORKING CAPITAL

The Directors are of the opinion that, taking into account the net proceeds from the [●] and the operating cash flow and available banking facilities of the Group, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this document.

INDEBTEDNESS

Borrowings and banking facilities

The Core Business's borrowings as at 31 December 2006, 2007, and 2008, 30 June 2009 and [31 August 2009], being the latest practicable date for determining the Core Business's indebtedness, are set out below:

	As at 31 December			As at 30 June	As at 31 August
	2006	2007	2008	2009	2009 (unaudited)
	(HK$ million)			(HK$ million)	
Non-current					
Bank borrowings, secured	—	930.0	939.1	1,062.1	1,062.1
	—	930.0	939.1	1,062.1	1,062.1
Current					
Bank borrowings, secured	—	734.7	267.3	186.9	46.3
	—	734.7	267.3	186.9	46.3
Total borrowings	—	1,664.7	1,206.4	1,249.0	1,108.4

Since 25 August 2009, the Non-core Business has ceased to form part of the Group and the Group comprises the Core Business only.

As at 31 August 2009, the Group's secured bank loans amounted to approximately HK$1,108.4 million, of which, HK$930 million bank loan was secured by a corporate guarantee from the Parent Group which will be released within seven days from the [●] (upon completion of the relevant legal documentation for the actual release of the corporate guarantee) and HK$178.4 million bank loans were secured by cross guarantees amongst group companies.

The Core Business's bank borrowings are denominated mainly in U.S. dollars (but are to be repaid in Hong Kong dollars at an agreed rate) and Renminbi. The interests on such bank borrowings are HIBOR plus 0.48% and PBOC Rate less 10% per annum, respectively. As at 31 August 2009, approximately HK$46.3 million of such bank borrowings were repayable within one year and approximately HK$1,062.1 million of such bank borrowings were not repayable within one year. As at 30 June 2009, approximately HK$186.9 million of such bank borrowings were repayable within one year and approximately HK$1,062.1 million of such bank borrowings were not repayable within one year. As at 31 December 2008, approximately HK$267.3 million of such bank borrowings were repayable within one year and approximately HK$939.1 million of such bank borrowings were not repayable within one year.

The interest-bearing bank borrowings of the Core Business as at 31 December 2006, 2007 and 2008, 30 June 2009, and 31 August 2009 were nil, approximately HK$1,664.7 million, HK$1,206.4 million, HK$1,249.0 million and HK$1,108.4 million, respectively. The increase in such bank borrowings as at 30 June 2009 as compared to that as at 31 December 2008 was mainly for the funding of working capital. The decrease in such bank borrowings as at 31 December 2008 as compared to that as at 31 December 2007 was mainly a result of partial repayment of such bank borrowings by the Group. The increase in such bank borrowings as at 31 December 2007 as compared to that as at 31 December 2006 was mainly a result of the assumption of the Assumed Loan by the Group from Parent Group in 2007.

The bank borrowings are guaranteed by Parent Group. The Group has obtained written consent from the relevant bank to release such guarantee on or before the [●]. The Company intends to repay the existing borrowings by utilising its internal funds and by using part of the proceeds from the [●]. The Company has also arranged for another bank loan to repay the outstanding balance of the Assumed Loan. The Company is of the view that there are no material covenants relating to outstanding borrowings which may materially affect the Company's ability to undertake additional debt or equity financing should it desire to do so.

Management of the Group from time to time reviews the working capital requirements of the Group. If the Group requires additional working capital, Management of the Group will consider all available capital alternatives by taking into account all the circumstances of the Group, including raising new loans. Management of the Group will regularly review the gearing level of the Company to ensure that it is appropriate.

Contingent liabilities

On 10 August 2009, the Company extended a corporate guarantee in favour of a bank in Thailand to support the banking facilities of Ferragamo (Thailand) Limited in proportion to the Group's interest in Ferragamo (Thailand) Limited. The maximum liability of the Company is the lower of (a) 50% of the borrowed sum; or (b) 50% of the sum of Baht 110 million and USD1.4 million (i.e. Baht 55 million and USD0.7 million, respectively) (approximately HK$18 million in aggregate). As at 31 August 2009, the amount borrowed by Ferragamo (Thailand) Limited amounted to approximately Baht 82.1 million and USD0.6 million (approximately HK$23.3 million in aggregate).

RELATED PARTY TRANSACTIONS

The Directors are of the view that each of the related party transactions set out in note 16 to the Accountant's Report in Appendix I to this document was conducted in the ordinary and usual course of business, on normal commercial terms and at arm's length between the relevant parties.

The balance payable to LiFung Trinity as at 31 December 2006 arose from the Reorganisation. The balance payable to LiFung Trinity as at 31 December 2006 was repaid via the assumption of the Assumed Loan by the Group from Parent Group in January 2007, therefore, there is no balance payable to LiFung Trinity as at 31 December 2007. Refer to the section headed "History, Reorganisation and Group Structure — Corporate Reorganisation" for further information about the Reorganisation.

FINANCIAL INSTRUMENTS

The Group uses forward contracts to hedge in part against the foreign exchange risks arising from future commercial transactions and recognised liabilities. These forward contracts typically have an effective term of six months, the duration which is determined by our management based on the Group's seasonal production cycle and payment terms with its suppliers on a case-by-case basis. The Group makes use of these contracts primarily to hedge against fluctuations in the exchange rate between Euros and Hong Kong dollars due to the credit terms provided by its suppliers. As the Group's raw material and certain finished goods purchases from overseas, mainly European countries, are made centrally through a subsidiary in Hong Kong of which Hong Kong dollars is the functional currency, and such purchases are mainly transacted in Euros, any depreciation of Hong Kong dollars against Euros will therefore have the effect of increasing the Group's cost of sales and/or net foreign exchange gains/losses. However, the Group does not enter into forward contracts to hedge against fluctuations in the exchange rate between Renminbi and Hong Kong dollars.

OFF BALANCE SHEET TRANSACTIONS

The Group has not entered into any material off-balance sheet transactions or arrangements.

NET CURRENT ASSETS

As at 30 June 2009 and 31 August 2009, the net current assets of the Group were as follows:

	As at 30 June 2009	As at 31 August 2009 (unaudited)
	(HK$ in million)	(HK$ in million)
Current Assets		
Cash and cash equivalents	363.4	156.2
Deposit and prepayments	106.3	75.9
Amount due from related parties	1.6	2.7
Trade receivables	127.7	133.4
Inventories	546.7	489.8
Total current assets	1,145.7	858.0
Current liabilities		
Trade payables	45.4	62.9
Other payables and accrued expenses	180.8	122.9
Borrowings	247.1	46.3
Amounts due to related parties	137.5	5.3
Current income tax liabilities	10.3	5.0
Total current liabilities	621.1	242.4
Net current assets	524.6	615.6

SOURCES AND USES OF CASH

As described in the paragraph headed “Liquidity, Financial Resources and Capital Resources” in this section above, the Group has funded its operations for the Core Business through sales of its products, capital contribution from shareholders and borrowings. The Group has applied the cash relating to the Core Business mainly to finance its operation, capital expenditure and to repay its borrowings. As at 31 August 2009, save as otherwise disclosed in this document, the Company is not aware of any material changes in the underlying drivers in respect of the sources and uses of its cash.

RESERVES

Refer to note 19 of the Accountant’s Report in Appendix I to this document for the movements in the merger reserve.

Changes in the merger reserve during the Track Record Period arose because of the following reasons:

(a) The year ended 31 December 2006:	As the acquisition of DDL Group and Green Group by the Group from Parent Group on 31 December 2006 was accounted for using merger accounting, a merger reserve was created representing the difference between the consideration of approximately HK$1.7 billion paid by the Group to Parent Group on 31 December 2006 and the amount paid by LiFung Trinity of approximately HK$1.6 billion for the acquisitions of DDL Group and Green Group on 30 April 2006. In addition, as a result of the acquisition of the Non-core Business under common control, an approximately HK$50.3 million merger reserve was created, which represents the difference between consideration paid and net assets acquired.
(b) The year ended 31 December 2007:	As the consideration of approximately HK$150.0 million paid by the Group to Parent Group on 31 March 2007 for the aforesaid acquisition of the interests in the JVs, through the acquisition of L&F Branded Lifestyle, was accounted for using merger accounting, such amount is regarded as deemed distributions to the equity holders and debited directly to the merger reserve. In addition, pursuant to an internal restructuring of the Non-core Business, an amount of approximately HK$63.4 million was paid to an intermediate holding company. Such amount is regarded as deemed distribution to the equity holders and debited directly to the merger reserve.
(c) The year ended 31 December 2008:	There was no movement in the merger reserve for the year ended 31 December 2008.

MARKET RISKS

The Group is exposed to interest rate, credit and foreign currency risks in the normal course of its business.

Interest rate risk

The Group's exposure to risk relating to changes in interest rates is mainly due to the interest-bearing loans and borrowings as part of the financial resources for the Group's business operations. Higher interest rates will increase the borrowing costs of the Group and may adversely affect the profitability of the Group's operations.

Credit risk

Credit risk is based on the possible inability of the Group's counterparties to meet their financial obligations to the Group. Cash and cash equivalents, pledged deposits, trade and other receivables are financial assets which are potentially subject to credit risks. The Group has formulated a credit policy and monitors its exposure to credit risk on an ongoing basis. The Group has no significant concentration of credit risk. The carrying amounts of those financial assets represents the Group's maximum exposure to credit risk. The maximum exposure to credit risk in respect of cash and cash equivalents refers to the cash balances held at financial institutions, and excludes cash on hand held at the retail stores of the Group.

Foreign currency risk

The Group conducts its business primarily in Hong Kong and Mainland China with most of its transactions denominated and settled in Hong Kong dollars and Renminbi. The Group's raw materials purchases are mainly transacted in Euros. A depreciation of the Hong Kong dollar against these foreign currencies will therefore have the effect of increasing the Group's cost of sales. The Group holds a significant amount of Renminbi denominated assets. Since the functional currency and reporting currency of the Group is Hong Kong dollars, if the Renminbi depreciates against the Hong Kong dollar, the Group will incur a foreign exchange loss in such translation which will adversely affect the Group's financial results. See the section headed "Risk Factors — the Group and the JVs are Exposed to Exchange Rate Fluctuations" in this document.

The Group has set up a policy to require members of the Group to manage their foreign exchange risk against the Hong Kong dollar. To manage the risk arising from future commercial transactions and recognised assets and liabilities, the Group enters into forward contracts. These forward contracts typically have an effective term of six months, the duration of which is determined by our management based on the Group's seasonal production cycle and payment terms with its suppliers on a case-by-case basis. The Group makes use of these contracts primarily to hedge against fluctuations in the exchange rate between Euros and Hong Kong dollars due to the credit terms provided by its suppliers. As the Group's raw material and certain finished goods purchases from overseas, mainly European countries, are made centrally through a subsidiary in Hong Kong of which Hong Kong dollars is the functional currency, and such purchases are mainly transacted in Euros, any depreciation of Hong Kong dollars against Euros will therefore have the effect of increasing the Group's cost of sales and/or net foreign exchange gains/losses. However, the Group does not enter into forward contracts to hedge against fluctuations in the exchange rate between Renminbi and Hong Kong dollars.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Directors confirm that they are not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.11 to 13.19 of the Listing Rules.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the [●] on the net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2009 as if the [●] had taken place on 30 June 2009 assuming the [●] is not exercised.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 30 June 2009 or at any future date following the

[●]. It is prepared based on the consolidated net assets of the Group as at 30 June 2009 as set out in the Accountant's Report of the Group, the text of which is set out in Appendix I to this document, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report.

	Audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2009(1)	Estimated net proceeds from the [●](2)	Unaudited pro forma adjusted net tangible assets attributable to the equity holders of the Company	Unaudited pro forma adjusted net tangible assets per Share(3)
	HK$'000	HK$'000	HK$'000	HK$
Based on an [●] of HK$[●] per Share	(270,144)	[●]	[●]	[●]
Based on an [●] of HK$[●] per Share	(270,144)	[●]	[●]	[●]

Notes:

(1) *The audited consolidated net tangible assets attributable to the equity holders of the Company as at 30 June 2009 is extracted from the Accountant's Report set out in Appendix I to this document, which is based on the audited consolidated net assets of the Group attributable to the equity holders of the Company as at 30 June 2009 of approximately HK$1,363 million with an adjustment for the intangible assets as at 30 June 2009 of approximately HK$1,633 million.*

(2) *The estimated net proceeds from the [●] are based on the indicative [●] of HK$[●] and HK$[●] per Share after deduction of the [●] fees and other related expenses payable by the Company and take no account of any shares which may fall to be issued upon the exercise of the [●].*

(3) *The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,506,464,883 Shares were in issue assuming that the [●] has been completed on 30 June 2009 but takes no account of any Shares which may fall to be issued upon the exercise of the [●] or any Share which may be allotted and issued or repurchased by the Company pursuant to the Issue Mandate or the Repurchase Mandate as described in the section headed "Share Capital" in this document.*

(4) *As at 30 September 2009, the Group's land use rights and buildings interests were revalued by CB Richard Ellis Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV to this document. The revaluation surplus, representing the excess of market value of the land use rights and buildings over their book value, is approximately HK$1,561,000. Such revaluation surplus has not been included in the Group's consolidated financial information as at 30 June 2009. The above adjustment does not take into account the above revaluation surplus. Had the land use rights and buildings been stated at such valuation, an additional depreciation of HK$243,000 per annum would be charged against the consolidated income statement.*

(5) *No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 June 2009.*

PROPERTY VALUATION

Particulars of the Group's property interests are set out in Appendix IV to this document. CB Richard Ellis Limited has valued the properties held by the Group as at 30 September 2009. A summary of valuations and valuation certificates issued by CB Richard Ellis Limited are included in Appendix IV to this document.

The table below sets out the reconciliation of aggregate amounts of the property interests of the Group as at 30 June 2009 to their value as at 30 September 2009 as per the valuation report set out in Appendix IV to this document:

	HK$'000
Net book value of property interests of the Group as at 30 June 2009	2,004
Movements for the three months ended 30 September 2009	
Disposal	(879)
Depreciation	(86)
Net book value as at 30 September 2009	1,039
Valuation surplus as at 30 September 2009	1,561
Valuation as at 30 September 2009 as per the valuation report set out in Appendix IV to this document	2,600

PROFIT FORECAST

The Directors forecast that, on the bases and assumptions set out in Appendix III to this document and in the absence of unforeseeable circumstances, the consolidated profit attributable to the equity holders of the Company for the year ending 31 December 2009 will not be less than HK$[●] million. The Group's business and operations are subject to strong seasonality effects and changes in markets where the Group sells its products. Refer to the section headed "Risk Factors" and "Financial Information — Factors that Affect the Group's Results of Operations and Financial Condition" in this document for details. The Group's full year financial results for the financial year ending 31 December 2009 will be different from this forecast in the event that the actual circumstances during the forecast period are different from the bases and assumptions set out in Appendix III to this document.

Group	Non-core Business	Core Business
Unaudited forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December 2009(1)(2)	**Loss of companies engaged in Non-core Business(2)**	**Unaudited pro forma forecast consolidated profit attributable to equity holders the Company for the year ending 31 December 2009 excluding loss of companies engaged in the Non-core Business**
Not less than HK$[●] million	HK$[●] million	Not less than HK$[●] million
Unaudited forecast earnings per share based on forecast profit attributable to equity holders of the Company for the year ending 31 December 2009(3)		**Unaudited pro forma forecast earnings per share based on unaudited forecast consolidated profit attributable to equity holders the Company for the year ending 31 December 2009 excluding loss of companies engaged in the Non-core Business(4)**
Not less than HK$[●]		Not less than HK$[●]

Notes:

(1) *The unaudited forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December 2009 is extracted from the section headed "Financial Information — Profit Forecast" in this document. The bases on which the above profit forecast has been prepared are set out in Appendix III to this document. The Directors have prepared the forecast consolidated profit attributable to the equity holders of the Company for the year ending 31 December 2009 based on the audited consolidated results of the Group for the six months ended 30 June 2009, the unaudited consolidated management accounts of the Group for the two months ended 31 August 2009 and a forecast of the consolidated results of the Group for the remaining four months ending 31 December 2009. The forecast has been prepared on the basis of accounting policies consistent in all material respects with those presently adopted by the Group as set out in note 2 of the Accountant's Report, the text of which is set out in Appendix I to this document.*

(2) *The unaudited forecast consolidated profit attributable to the equity holders of the Company for the year ending 31 December 2009 includes the forecast consolidated arising from companies of the Group engaged in the Non-core Business amounting to HK$[●] million up to 25 August 2009 when these companies were transferred to Parent Group.*

(3) *The calculation of unaudited pro forma forecast earnings per Share is based on the unaudited forecast consolidated profit attributable to the equity holders of the Company for the year ending 31 December 2009 and on the basis that [●] Shares were in issue during the entire period and assuming that the [●] had been completed on 1 January 2009. The calculation has not taken into account any Shares which may be issued upon the exercise of the [●] or any options granted under the Pre-[●] Share Option Scheme.*

(4) *The calculation of unaudited pro forma forecast earnings per Share is based on the unaudited forecast consolidated profit attributable to the equity holders of the Company for the year ending 31 December 2009 excluding the loss of companies engaged in the Non-Core Business and on the basis that [●] Shares were in issue during the entire period and assuming that the [●] had been completed on 1 January 2009. The calculation has not taken into account any Shares which may be issued upon the exercise of the [●] or any options granted under the Pre-[●] Share Option Scheme.*

DIVIDEND AND DIVIDEND POLICY

The Group declared dividends of approximately HK$20.8 million, nil, HK$57.8 million and nil for the years ended 31 December 2006, 31 December 2007 and 31 December 2008 and the six months ended 30 June 2009, respectively which were subsequently paid. All dividends declared and paid were funded by internally generated cash flow.

The declaration of dividends is subject to the discretion of the Directors, and, if necessary, the approval of the Shareholders. The amount of dividends actually declared and paid will also depend upon the Group's earnings and cash flow, financial condition, capital requirements, investment requirements and any other conditions that the Directors may deem relevant.

Subject to the above factors, the Directors currently plan to pay annual dividends of approximately 30% to 60% of the Group's consolidated profit attributable to Shareholders beginning from the financial year ending 31 December 2009. Cash dividends on the Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to the Shareholders by any means which the Directors consider legal, fair and practicable.

DISTRIBUTABLE RESERVES

The Company had no reserves available for distribution to the Shareholders as at 30 June 2009.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the Group's financial or trading position or prospects of the Group since 30 June 2009.