Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

Annual Report 2009

Stock Code : 458

CONTENTS

CORPORATE INFORMATION

WANG KOO Yik Chun
Honorary Chairlady

TANG Chi Chien, Jack
Chairman Emeritus

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

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

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

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

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

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

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

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY
LO Yiu Hee

AUDITOR
PricewaterhouseCoopers,
Certified Public Accountants

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

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

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

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

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

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

	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000
CONSOLIDATED INCOME STATEMENT					
Revenue	**2,828,809**	3,491,630	2,913,318	2,858,475	2,694,225
(Loss)/profit for the year attributable to:					
Equity holders of the Company	**(103,862)**	102,517	130,263	115,359	167,779
Minority interests	**(36)**	(35)	1,991	4,902	8,052
(Loss)/profit for the year	**(103,898)**	102,482	132,254	120,261	175,831
Basic (loss)/earnings per share attributable to equity holders of the Company	**(HK$0.39)**	HK$0.38	HK$0.48	HK$0.43	HK$0.62
CONSOLIDATED STATEMENT OF FINANCIAL POSITION					
Non-current assets	**800,672**	791,259	538,201	520,664	464,153
Current assets	**1,101,458**	1,153,360	1,210,066	1,116,859	958,278
Current liabilities	**655,191**	645,418	615,261	558,848	483,960
Net current assets	**446,267**	507,942	594,805	558,011	474,318
Total assets less current liabilities	**1,246,939**	1,299,201	1,133,006	1,078,675	938,471
Non-current liabilities	**200,612**	248,159	149,532	186,551	178,362
Net assets	**1,046,327**	1,051,042	983,474	892,124	760,109
Capital and reserves attributable to equity holders of the Company	**1,045,926**	1,050,600	982,987	876,582	743,745
Minority interests	**401**	442	487	15,542	16,364
Total equity	**1,046,327**	1,051,042	983,474	892,124	760,109

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

2009 was a challenging year for Tristate Holdings Limited ("Tristate") and its subsidiaries (together, the "Group"). As the global economy was hit by the financial tsunami, the worldwide operating environment was difficult and consumer sentiment was weak. In response to the unfavourable market conditions, the Group implemented rationalisation and cost containment measures and has restructured certain overseas operations, including closing down one of the factories in the Philippines and scaling down the operations in Thailand during 2009 and completed the close down of a factory in China after the Chinese New Year in 2010. As a result, substantial one-off restructuring expenses and write-offs were incurred in 2009. Excluding the impacts of these non-recurring expenses under these unusually difficult conditions, the Group would have achieved satisfactory results with operating profit of HK$103,076,000 compared with HK$119,557,000 in 2008.

Velmore, which the Group acquired in March 2008, has been successfully integrated and has enhanced the Group's capability to provide complete apparel solutions to our customers.

In December 2009, the Group successfully won a bid for and bought a commercial property in a public auction, which comprises two adjoining 7-storey and 2-storey buildings located in Shanghai, China. This acquisition would enable the Group to centralise its various operations in Shanghai in this property, and provides additional space to accommodate the Group's growing sourcing operations.

RESULTS

For the year ended 31 December 2009, the revenue of the Group decreased by 19% from HK$3,491,630,000 in 2008 to HK$2,828,809,000 in 2009 mainly due to contraction in demand as a result of the overall weak market environment. The Group recorded a loss attributable to equity holders of HK$103,862,000 compared with a profit of HK$102,517,000 in 2008. The loss was completely attributable to non-recurring restructuring costs of HK$179 million incurred during the year.

The Board recommends the payment of a final dividend of HK$0.10 per share.

KEY AREAS OF FOCUS

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

Broad Product Range

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

Broad Geographic Reach and Scale

Factories with modern production equipment situated in China, the Philippines, Thailand and Vietnam, the Group offers geographic diversification and a competitive cost base to our customers. The Group also has sales/liaison offices in Hong Kong, Macau, Shanghai, Taipei, Kaohsiung, Seoul, New York and London. We have the scale required to produce large orders and fulfill reorders, line infusions and quick turn orders.

The new production facility in the Hefei Economic & Technological Development Area in Anhui Province, China, which is the lowest cost centre of the Group, commenced production in February 2009. This facility further improved our production capacity and cost competitiveness.

Strong Customer Relationships

The Group adopts a strategy of key accounts management and has developed multi-product and multi-country relationships with our core international customers with worldwide sales. This strategy has broadened and strengthened our relationships with such existing clients and opened up opportunities for new accounts. The Group received various awards from its customers in recognition of the strong business relationship and for the good performance of the Group.

The quality design and sales team of Velmore in the United Kingdom has enhanced the Group's scope of services by offering garment design, fabric development and testing, and providing complete apparel solutions to its customers.

Cost Control

To minimise the negative impact from the continuous pressure on staff and manufacturing costs, we continue to introduce innovative and cost effective systems to enhance factories' productivity and better managed materials costs and logistics expenses. In order to maintain the Group's competitiveness, advanced production technology and production processes are continuing to be implemented to reduce the reliance on manpower.

Corporate Social Responsibility

As a socially responsible entity, the Group is committed to fostering long-term relationships with its shareholders, employees, customers and business partners. The Group recognises the importance of total Corporate Social Responsibility ("CSR") compliance to our customers as they respond to the demands of the market relative to promoting workers' rights around the world. Total CSR compliance is a prerequisite for being a responsible supplier, and each year the requirements are becoming more stringent. With these responsibilities and values in mind, we strive to deliver the best possible services and products to our customers and will continue to uphold social compliance as a strategic priority. In 2009, the Group was awarded a CSR award from one of its customers.

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

Human Resources

With many talented, experienced and dedicated staffs in our Group, we continue to focus on enhancing teamwork across functions and geographies. We shall maintain our best practices to become a leader in the industry in delivering speedy and flexible production solutions and quality services to our customers.

OUTLOOK

The financial tsunami commencing in late 2008 continues to have an adverse impact on the global economy. Currency values and commodity prices continues to be unstable. Though recent economic data had shown signs of recovery, the timing of an overall revival in the economy and consumer sentiment is still uncertain. As such, the Group will continue to exercise stringent control on its cost structure and adopt a cautious approach in devising and implementing development strategies. Given the large-scale production sites with state-of-the-art production facilities in relatively low-cost countries, the Group has its competitive edge in producing high quality and high value added products for our customers at reasonable costs.

The Group is financially strong and in net cash position. We shall constantly search for business opportunities to open up new sources of income. Supported by our talented management team and skilled labour, we are confident that we shall be able to rise to the challenges ahead and sustain further continuing growth.

APPRECIATION

I would like to take this opportunity to thank all our customers for their confidence, business and ongoing trust and support for the Group. It is our pleasure to have all of you as our business partners. To the entire family of Tristate employees, we express our appreciation for your dedication, professionalism and team spirit. I would also like to thank my fellow Directors. Without your dedication and enthusiasm, our Group would not be able to overcome various challenges and achieve future success. Last, but not the least, we would like to express our appreciation to our shareholders.

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Hong Kong, 29 March 2010

In this Management Discussion and Analysis, we present the business review and a discussion on the financial performance of Tristate Holdings Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2009.

BUSINESS REVIEW

For the year ended 31 December 2009, the Group recorded a loss attributable to equity holders of HK$103,862,000 as compared with a profit of HK$102,517,000 in 2008. The loss was attributable to the restructuring costs of HK$179 million relating to overseas operations. After considering the impact of the unprecedented global financial downturn on future orders, the uncertainty regarding a rapid recovery, our cost competitiveness and labour efficiency, we have restructured certain overseas operations, including closing down one of the factories in the Philippines and scaling down the operations in Thailand during 2009 and completed the close down of a factory in the People's Republic of China (the "PRC") in early 2010. Out of the restructuring costs, redundancy costs of HK$33 million were incurred and net negative translation reserve balances of HK$134 million related to the operations in the Philippines and a subsidiary in the PRC were transferred from cumulative translation reserve (a non-cash equity item) to the consolidated income statement. In addition, due to the expectation of operating losses of one of the Group's branded product license business, a one-time provision for impairment on license rights of HK$11 million was made in the consolidated income statement in 2009. Excluding the impact of the aforesaid restructuring costs and license rights impairment, profit from operations in 2009 decreased by 14% to HK$103,076,000 when compared to 2008; while in terms of operating profit margin, it increased from 3.4% in 2008 to 3.6% in 2009.

For the year ended 31 December 2009, the total revenue of the Group was HK$2,828,809,000 (2008: HK$3,491,630,000), representing a decrease of 19% as compared with 2008. Revenue generated from the garment manufacturing segment decreased by 26% as compared with 2008. This was mainly due to the decline in sales orders as a result of the overall weak market environment.

Revenue from the branded product distribution, retail and trading segment increased by 43% when compared with 2008. Such increase was mainly due to the revenue contributions from the branded product distribution operations in the PRC as well as the trading business.

Geographically, sales to the United States of America (the "US"), the United Kingdom (the "UK") and the PRC in 2009 accounted for 53% (2008: 60%), 21% (2008: 20%) and 18% (2008: 13%) respectively of the Group's total revenue. This trend reflects the Group's strategy of diversification and reduced reliance on the US market. The Group's garment manufacturing business is generally subject to seasonality and management seeks to minimise the impact of seasonality by focusing on key customers with relatively even year-round orders.

Gross profit of the Group decreased to HK$641,615,000 (2008: HK$708,490,000) while gross profit margin increased from 20.3% in 2008 to 22.7%. This was mainly attributable to cost reduction resulted from the restructuring of overseas operations and the initiatives on manufacturing cost savings. Selling and distribution expenses increased by 2% mainly due to the net impact of increased sales in the branded product distribution business and the selling cost savings in the garment manufacturing business. General and administrative expenses decreased by 16% as a result of the restructuring and cost control measures. Velmore, which the Group acquired in March 2008, has been successfully integrated. The acquisition is strategically important as it provides the Group with access to the UK market and the ability to provide complete apparel solutions to our customers.

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

The Group's new production facility in the Hefei Economic & Technological Development Area in Anhui Province commenced production in February 2009 further improving our production capacity and cost competitiveness.

ACQUISITION OF A PROPERTY IN SHANGHAI

On 21 December 2009, the bid made by Shanghai Tristate Enterprises Co., Ltd. ("Shanghai Tristate"), a wholly-owned subsidiary of the Company, to purchase a commercial property (the "Property") in a public auction was successful at a purchase price of HK$119,414,000 (equivalent to RMB105,127,000) (the "Acquisition"). The Acquisition was completed subsequent to the year end and Shanghai Tristate obtained the Shanghai Certificate of Real Estate Ownership on 22 March 2010.

The Property comprises two adjoining 7-storey and 2-storey buildings located at 上海靜安區鎮寧路162號6幢號、7幢號 (Blocks 6 and 7, No. 162 Zhenning Road, Jing'an Qu, Shanghai), the PRC, with an aggregate gross floor area of approximately 4,120 square meter. The Group's sourcing and branded products distribution departments are now situated at different premises in Shanghai. The Group plans to centralise its various operations in Shanghai in this Property, which will also provide additional space to accommodate the Group's growing sourcing operations. Further details of the Acquisition were set out in the announcement and the circular of the Company dated 21 December 2009 and 26 February 2010 respectively.

Save as disclosed above, there were no material acquisitions or disposals of subsidiaries or associated companies during the year 2009 and up to the date of this Annual Report and no important events affecting the Group have occurred since 31 December 2009 and up to the date of this Annual Report.

FINANCIAL RESOURCES AND LIQUIDITY

Despite the restructuring and Acquisition, the Group continued to maintain a healthy balance sheet and liquidity position. As at 31 December 2009, cash and bank balances amounted to HK$401,403,000 (2008: HK$300,349,000) which were mainly denominated in US dollars and Renminbi. The short-term bank borrowings of the Group amounted to HK$170,343,000 as at 31 December 2009 (2008: HK$210,842,000). Such borrowings were mainly denominated in US dollars, Hong Kong dollars and Thai Bahts. As at 31 December 2009, HK$134,401,000 (2008: HK$119,320,000) and HK$35,942,000 (2008: HK$91,522,000) of the short-term bank borrowings were interest bearing at fixed rates and floating rates, respectively. The Group maintained sufficient banking facilities and did not have any long-term bank borrowings outstanding as at 31 December 2009. Apart from the pledging of HK$18,906,000 (2008: HK$15,498,000) bank deposits as collateral for certain foreign exchange facilities, facilities extended to the Group were not secured with the Group's assets. As the Group did not have net borrowings as at 31 December 2009 and 2008, no information on gearing ratio as at these two dates is applicable.

Most of the Group's receipts and payments were denominated in US dollars, Pound Sterling, Hong Kong dollars, Renminbi and Euro. Management monitors the related foreign exchange risk exposure by entering into forward foreign exchange contracts. During the year ended 31 December 2009, the Group had forward foreign exchange contracts to hedge against the foreign exchange exposures arising from US dollars denominated processing income for factories in the PRC, Thailand and Vietnam; Pound Sterling for sales receipts from customers and Euro for payments to suppliers. Further, the Group also had forward foreign exchange contracts to hedge against its net investment in the UK.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

Except for the capital commitments described in Note 38 to the consolidated financial statements, there were no material capital commitments or contingent liabilities as at 31 December 2009 which would require a substantial use of the Group's present cash resources or external funding.

HUMAN RESOURCES

The Group had about 15,000 employees as at 31 December 2009 (2008: 17,000). Fair and competitive remuneration packages and benefits are offered to competent employees. Discretionary bonuses are granted to eligible employees with outstanding performance. In addition, the Company has a share option scheme for granting of options to eligible persons to subscribe for shares in the Company.

FUTURE DEVELOPMENT

Due to the financial tsunami and the consequential recession in major western economies, the garment manufacturing business of the Group was affected by a slowdown in demand, price contraction as well as volatility in foreign currencies. As such, the Group has taken measures to mitigate the adverse impact by offering a variety of value added services to its customers, restructuring of overseas operations and implementing stringent cost control. Amid the uncertain international markets, the China economy remains resilient and continues its growth. The Group plans to expand its branded product business and sourcing operations in the PRC.

Although the global economy and operating environment has stabilised and shown signs of bottoming out, we are cautiously optimistic with the years ahead. The Group will continue its prudent approach in its operation and development by focusing on its core customers, product offerings and implementing cost control.

CORPORATE GOVERNANCE PRACTICES

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

Throughout the year ended 31 December 2009, the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), except for the deviation from code provision A.2.1. Details of the deviation are set out in the following relevant paragraphs.

Included in this report is the information relating to corporate governance practices of the Company during the year ended 31 December 2009 and significant events after that date and up to the date of this report.

A. DIRECTORS

The Board

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

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

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

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

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

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

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

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

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

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

Directors' attendance records

During the year ended 31 December 2009, four regular Board meetings have been held. The attendance of each Director at these Board meetings, Board committee meetings and the annual general meeting held in year 2009 (the "2009 AGM") is set out below:

	Number of meetings attended/held			
	Board	**Audit Committee**	**Remuneration Committee**	**2009 AGM**
Executive Director:				
Mr. WANG Kin Chung, Peter *(Chairman and CEO)*	4/4	N/A	N/A	1/1
Non-Executive Directors:				
Ms. WANG KOO Yik Chun *(Honorary Chairlady)*	2/4	N/A	N/A	1/1
Ms. Leslie TANG SCHILLING *(Note)*	1/1	N/A	N/A	N/A
Ms. MAK WANG Wing Yee, Winnie *(Chairlady of the Remuneration Committee)* *(member of the Audit Committee)*	4/4	2/2	1/1	1/1
Dr. WANG Shui Chung, Patrick	4/4	N/A	N/A	0/1
Independent Non-Executive Directors:				
Mr. LO Kai Yiu, Anthony *(Chairman of the Audit Committee)* *(member of the Remuneration Committee)*	3/4	2/2	1/1	1/1
Mr. James Christopher KRALIK *(member of the Audit Committee)* *(member of the Remuneration Committee)*	4/4	2/2	1/1	0/1
Professor John Zhuang YANG *(member of the Remuneration Committee)*	4/4	N/A	0/1	0/1

N/A: Not applicable

Note:

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

Chairman and Chief Executive Officer

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

During the year ended 31 December 2009 and up to the date of this report, Mr. WANG Kin Chung, Peter is the Chairman and the Chief Executive Officer ("CEO") of the Company, and that the functions of the Chairman and the CEO in the Company's strategic planning and development process overlap. These constitute a deviation from code provision A.2.1 of the Code which stipulates that the roles of the Chairman and the CEO should be separate and should not be performed by the same individual.

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

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

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

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

Board composition

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

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

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

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

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

Appointments, re-election and removal

The Board is responsible for considering the suitability of individuals to act as a Director, and approving or terminating the appointments. The Company has not established any nomination committee and would not consider establishing a nomination committee owing to the small size of the Board.

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

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

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

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

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

At the forthcoming annual general meeting of the Company to be held on 7 June 2010 (the "2010 AGM"), Ms. MAK WANG Wing Yee, Winnie and Mr. James Christopher KRALIK will retire by rotation and, being eligible, offer themselves for re-election as Directors in accordance with the Bye-Laws.

Particulars of the aforesaid retiring Directors and the recommendation of the Board for their re-election are set out in a circular (the "Circular") of the Company to be despatched to shareholders on or around 29 April 2010.

Responsibilities of directors

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

Directors are provided with the relevant guidelines on directors' duties issued by the Hong Kong Companies Registry and continuous updates on the latest changes or material development in statues, the Listing Rules, corporate governance practices etc.

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

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

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2009.

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

Supply of and access to information

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

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

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

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

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The level and make-up of remuneration and disclosure

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

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

A majority of the members of the Remuneration Committee are Independent Non-Executive Directors. During the year ended 31 December 2009 and up to the date of this report, the members of the Remuneration Committee are:

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

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

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

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

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

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

The emoluments payable to the Directors are determined at arm's length on the basis of the responsibilities involved, time devoted, financial position of the Company and the prevailing market conditions. At the 2009 AGM, the shareholders approved the authorisation of the Directors to fix their remuneration.

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

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

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

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

Notes:

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

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

The attendance of each member at the Remuneration Committee meeting held during the year ended 31 December 2009 is set out in the "Directors' attendance records" section of this report.

During the year ended 31 December 2009, the Remuneration Committee held a meeting and the work performed is set out below:

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

(ii) reviewed and approved the recommendation to the Board on the granting of share options.

C. ACCOUNTABILITY AND AUDIT

Financial reporting

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

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

The Directors acknowledge that they are responsible for preparing the accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the results and cash flow for the year then ended. In preparing the accounts for the year ended 31 December 2009, the Directors have:

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

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

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

A statement by the Auditor about their reporting responsibilities is included in the Independent Auditor's Report on page 35.

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

Internal controls

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

During the year ended 31 December 2009, a review of the effectiveness of the system of internal controls applicable to the Group's major activities was carried out under the direction of the Audit Committee. This review comprised:

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

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

Audit Committee

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

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

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

A majority of the members of the Audit Committee are Independent Non-Executive Directors. During the year ended 31 December 2009 and up to the date of this report, the members of the Audit Committee are:

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

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

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

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

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

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

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

The Board agrees with the Audit Committee's proposal for the re-appointment of PricewaterhouseCoopers ("PwC") as the Company's external auditor for 2010. The recommendation will be presented for the approval of shareholders at the 2010 AGM.

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

The attendance of each member at the Audit Committee meetings held during the year ended 31 December 2009 is set out in the "Directors' attendance records" section of this report.

During the year ended 31 December 2009, the Audit Committee held two meetings and the work performed is set out below:

(i) reviewed the draft annual report and audited financial statements for the year ended 31 December 2008 and recommended the same to the Board for approval;

(ii) made recommendation to the Board on the appointment of the external auditor at the 2009 AGM and considered the proposed external auditor's remuneration;

(iii) reviewed the draft interim report and unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2009 and recommended the same to the Board for approval;

(iv) reviewed the audit service plan from the external auditor, reviewed their independence and discussed with them the nature and scope of audit for the year ended 31 December 2009 and their reporting obligations, considered and approved their terms of engagement;

(v) reviewed the report on the annual review of internal control system, risk assessment and periodic internal audit reports; and

(vi) reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

Auditors' remuneration

In 2009, remunerations paid to PwC, the Company's external auditor, and its associates in respect of audit and non-audit services provided to the Group are set out below:

	2009 *HK$'000*
Annual audit fees	**3,848**
Tax services fees	**694**
Other services fees	**355**
Total	**4,897**

D. DELEGATION BY THE BOARD

Management functions

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

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

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

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

Board committees

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

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

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

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

E. COMMUNICATION WITH SHAREHOLDERS

Effective communication

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

At the 2009 AGM:

(i) A separate resolution was proposed by the Chairman of the meeting in respect of each separate issue, including the re-election of Directors;

(ii) The Chairman of the Board, the Chairman of the Audit Committee and the Chairlady of the Remuneration Committee attended to answer questions of the shareholders; and

(iii) The Chairman of the meeting demanded poll on all resolutions.

The notice of the 2010 AGM will be sent to shareholders at least 20 clear business days before the meeting. Please refer to the Circular for further details.

Voting by Poll

It was properly explained at the commencement of the 2009 AGM the procedures for conducting a poll.

At the 2010 AGM, the Chairman of the meeting will demand a poll on all the resolutions in accordance with the requirements of the Listing Rules. The poll results will be posted on the websites of the Stock Exchange and the Company on the same day following the 2010 AGM.

Shareholders' rights and investor relations

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

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

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

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

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

The Board resolved that the 2010 AGM will be held at Room 5A, 5th Floor, 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong on Monday, 7 June 2010 at 10:00 a.m. The notice of the 2010 AGM will be sent to all shareholders separately. The Chairman of the Board together with the Chairman of the Audit Committee and the Chairlady of the Remuneration Committee or their delegates will attend the 2010 AGM to answer questions from the shareholders on the business to be dealt with at the 2010 AGM.

The important dates to shareholders in year 2010 are as follows:

Book close dates for proposed final dividend:	Thursday, 3 June 2010 to Monday, 7 June 2010, both days inclusive
2010 AGM:	Monday, 7 June 2010
Expected payment date of proposed final dividend:	Thursday, 10 June 2010

On behalf of the Board

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Hong Kong, 29 March 2010

DIRECTORS

Executive Director

Mr. WANG Kin Chung, Peter, *BSc, MBA*, aged 56, became the Company's President and Chief Executive Officer in 1999 and redesignated as the Chairman and Chief Executive Officer of the Company since 2001. He is also the Chairman of the Share Option Committee of the Company and a director of certain subsidiaries of the Company. Mr. Wang has more than 26 years' experience in the garment industry and is responsible for the overall strategic planning and business development of the Company. Mr. Wang obtained a BSc degree in Industrial Engineering from Purdue University in Indiana, USA and an MBA degree from Boston University, USA. He is a non-executive director and a member of the audit committee of Johnson Electric Holdings Limited and the chairman and managing director of Hua Thai Manufacturing Public Company Limited (formerly listed on The Stock Exchange of Thailand). Mr. Wang won the Young Industrialist Award of Hong Kong in 1998. In 2005, he received the Outstanding Industrial Engineer Award from the School of Industrial Engineering of Purdue University. He is the honorary chairman of the Hong Kong Garment Manufacturers Association, a general committee member of the Textile Council of Hong Kong Limited, a director of The Federation of Hong Kong Garment Manufacturers and a member of the Textiles and Garment Subsector of the Election Committee for electing the Chief Executive of the Hong Kong Special Administrative Region in 2007. Mr. Wang is a son of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company and a brother of Ms. MAK WANG Wing Yee, Winnie and Dr. WANG Shui Chung, Patrick, Directors of the Company. He is a director of Silver Tree Holdings Inc. which is a substantial shareholder of the Company as disclosed in the "Substantial Shareholders" section of the Report of the Directors.

Non-Executive Directors

Ms. WANG KOO Yik Chun, aged 92, became Co-chairlady and Honorary Co-chairlady in 1999 and 2001 respectively and then redesignated as the Honorary Chairlady of the Company since 2002. She is the founder of Hwa Fuh Manufacturing Company (Hong Kong) Limited and its subsidiaries. She is also the honorary chairlady and a non-executive director of Johnson Electric Holdings Limited, a former director of Hua Thai Manufacturing Public Company Limited (formerly listed on The Stock Exchange of Thailand), and a director of certain subsidiaries of the Company. Ms. Koo is the mother of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, Dr. WANG Shui Chung, Patrick and Ms. MAK WANG Wing Yee, Winnie, Directors of the Company.

Ms. MAK WANG Wing Yee, Winnie, *BSc*, aged 63, obtained her BSc degree from Ohio University, USA and became a Non-Executive Director of the Company in April 1999. She is also the Chairlady of the Remuneration Committee, a member of the Audit Committee and a member of the Share Option Committee of the Company. Ms. Wang is a director of two subsidiaries of the Company. She is also the vice chairman of Johnson Electric Holdings Limited. Ms. Wang is a daughter of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company, and a sister of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, and Dr. WANG Shui Chung, Patrick, a Director of the Company.

Dr. WANG Shui Chung, Patrick, *JP, BSc, MSc*, aged 59, obtained his BSc and MSc degrees in Electrical Engineering and received an Honorary Doctorate of Engineering from Purdue University in Indiana, USA. He became a Non-Executive Director of the Company in April 1999 and is a director of a subsidiary of the Company. Dr. Wang is the chairman and chief executive of Johnson Electric Holdings Limited, a non-executive director of The Hongkong and Shanghai Banking Corporation Limited and VTech Holdings Limited. He is the chairman of the Hong Kong Applied Science and Technology Research Institute Company Limited and a member of Steering Committee on the Promotion of Electric Vehicles appointed by The Government of the Hong Kong Special Administrative Region. Dr. Wang is a son of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company, and a brother of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, and Ms. MAK WANG Wing Yee, Winnie, a Director of the Company.

Independent Non-Executive Directors

Mr. LO Kai Yiu, Anthony, aged 61, joined the Company in June 1998 as an Independent Non-Executive Director. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Lo is qualified as a chartered accountant with the Canadian Institute of Chartered Accountants and is a member of the Hong Kong Institute of Certified Public Accountants. In addition to over eight years of professional accounting experience, he has over 30 years of experience in investment banking and other financial services. He is the chairman of Shanghai Century Capital Limited and serves as a director of a number of public and private companies.

Mr. James Christopher KRALIK, aged 44, was appointed as an Independent Non-Executive Director of the Company in April 2002. He is also a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Kralik is the managing director of Linden Street Capital Limited, a privately held investment company focused on Greater China-based investment opportunities. He previously served as the chief executive officer of VTech Telecommunications Limited, built and led a Hong Kong-based group of media and entertainment businesses, and was a management consultant with McKinsey & Company, Inc. Mr. Kralik is a graduate of Harvard College and the Harvard Business School.

Professor John Zhuang YANG, aged 55, was appointed as an Independent Non-Executive Director of the Company in August 2007. He is also a member of the Remuneration Committee of the Company. Professor Yang is the International Dean, Beijing International MBA Program at Peking University, China; the Professor of Management, China Center for Economic Research at Peking University, China; and the Associate Professor of Management, Fordham University, USA. Professor Yang received his Ph.D. in Business Administration from Columbia University, USA in 1991, majoring in management. He got his M.A. in Sociology from the same institution in 1985. Professor Yang was also granted an M.P.A. degree in International and Public Affairs from The Woodrow Wilson School of Public and International Affairs of Princeton University, USA in 1984. He got his B.A. in English Literature from Peking University, China in 1974. Main teaching and research interests of Professor Yang involve Fundamentals of Management, Human Resource Management, Comparative Management, Corporate Culture, key success factors of Multinational Corporation Strategies and Management in China, Leadership and Organisational Behaviour. He has published a large number of articles and columns in leading academic journals and business press in China and USA.

SENIOR MANAGEMENT

Mr. POON Kam Wing, John, *Ctext ATI, ACFI, MBA (Melb)*, aged 47, joined the Company in 1999 and is the Senior Vice President – Operation. Mr. Poon has over 21 years of experience in the garment industry. Immediately before joining the Company, Mr. Poon was a divisional general manager of a publicly listed conglomerate.

Mr. LO Yiu Hee, *BBA, MBA*, aged 52, joined the Company in June 2008 and is currently the Chief Financial Officer and Company Secretary of the Company. He holds bachelor and master degrees in business administration from The Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. Mr. Lo has over 26 years of experience in finance and accounting in various listed companies. He was the vice president of CPA Australia, Hong Kong China Division for 2000/2001 and 2003/2004, and councillor from 1997 to 2006.

Mr. Joshua Bruce PERLMAN, *BS*, aged 40, joined the Company in 2003 as Managing Director of the Retail and Wholesale division of the Company's wholly-owned subsidiary, 338 Fashion Co. Limited and was appointed as a director of 338 Fashion Co. Limited in 2005. 338 Fashion Co. Limited is the exclusive licensee for Nautica in the China, Hong Kong, Macau markets, as well as the Jack Wolfskin brand in China and Hong Kong. Mr. Perlman has over 17 years of experience in China working with multinational brands on the sales and marketing side of their operations. A graduate of both Tulane University and the Johns Hopkins University Center for Chinese and American Studies, Mr. Perlman is native of New York City, USA, and is fluent in Mandarin, Chinese.

Mr. Alistair Stewart MCDONALD, *BA Hons*, aged 45, joined the Group in 2008 with the acquisition of Velmore Limited where he has the position of Managing Director. He holds a BA Honours degree in Business and Administration from the University of Strathclyde, Scotland. Mr. McDonald has over 22 years experience in the garment industry primarily on the sales, design and product development side for the UK market.

The board of directors (the "Board") of Tristate Holdings Limited (the "Company") presents its report together with the audited financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

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

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated income statement on page 36.

No interim dividend was paid for the six months ended 30 June 2009 (2008: HK$0.06 per share, totalling HK$16,124,000).

The Board recommends the payment of a final dividend of HK$0.10 per share, totalling HK$26,874,000 for the year ended 31 December 2009 (2008: HK$0.09 per share, totalling HK$24,186,000).

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on Monday, 7 June 2010 (the "2010 AGM"), is expected to be paid on Thursday, 10 June 2010 to the shareholders of the Company whose names appear on the register of members of the Company on Monday, 7 June 2010, and for the purpose of determining the entitlements of the shareholders, the register of members of the Company will be closed from Thursday, 3 June 2010 to Monday, 7 June 2010, both days inclusive.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2009 is set out on page 3.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 16 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2009 are set out in Note 19 to the consolidated financial statements.

ASSOCIATES

Particulars of the Group's interests in associates are set out in Note 22 to the consolidated financial statements.

SHARE CAPITAL

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

RESERVES

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

DISTRIBUTABLE RESERVES

As at 31 December 2009, the reserves of the Company amounted to HK$431,791,000 (2008: HK$431,376,000) and retained earnings amounted to HK$166,606,000 (2008: HK$164,166,000); of which HK$597,626,000 (2008: HK$595,186,000) were available for distribution to equity holders of the Company as calculated in accordance with the Companies Act 1981 of Bermuda.

SHARE OPTIONS

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

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

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

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

Movement in the share options granted under the 2007 Share Option Scheme during the year and outstanding as at 31 December 2009 were as follows:

		Number of share options					
Date of grant	**Participant**	**At 01/01/2009**	**Granted during the year**	**Lapsed during the year**	**At 31/12/2009**	**Exercise price per share**	**Exercisable period**
02/07/2008	Employees (in aggregate)	447,000	–	118,000	**329,000**	HK$1.86	02/07/2008 – 01/07/2013
		447,000	–	118,000	**329,000**	HK$1.86	02/07/2009 – 01/07/2013
		447,000	–	118,000	**329,000**	HK$1.86	02/07/2010 – 01/07/2013
		447,000	–	118,000	**329,000**	HK$1.86	02/07/2011 – 01/07/2013
14/09/2009 *(Notes 2 & 3)*	Employees (in aggregate)	–	419,000	–	**419,000**	HK$1.45	14/09/2009 – 13/09/2014
		–	419,000	–	**419,000**	HK$1.45	14/09/2010 – 13/09/2014
		–	419,000	–	**419,000**	HK$1.45	14/09/2011 – 13/09/2014
		–	419,000	–	**419,000**	HK$1.45	14/09/2012 – 13/09/2014
	Total	1,788,000	1,676,000	472,000	**2,992,000**		

Notes:

1. The above options vest in four equal tranches over a period of three years from the relevant date of grant.
2. The Company received a total consideration of HK$6.00 from the grantees for the options granted during the year.
3. The closing price of the shares of the Company on 11 September 2009, i.e. the business date immediately before the date on which the options were granted during the year, as quoted on the Stock Exchange, was HK$1.45.
4. No share options granted had been exercised or cancelled during the year.

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

BANK BORROWINGS

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

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$8,000.

DIRECTORS

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

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

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

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

In accordance with Bye-Laws 85 and 86 of the Company's Bye-Laws, Ms. MAK WANG Wing Yee, Winnie and Mr. James Christopher KRALIK will retire by rotation and, being eligible, offer themselves for re-election as Directors at the 2010 AGM.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and the senior management of the Group as at the date of this report are set out on pages 22 to 24.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2009, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Interests in shares of the Company

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

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

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

Notes:

1. 3,388,000 shares were beneficially owned by Ms. Daisy TING, the spouse of Mr. WANG Kin Chung, Peter.

2. 178,442,000 shares were beneficially owned by Silver Tree Holdings Inc., a company wholly owned by Mr. WANG Kin Chung, Peter.

3. 2,500 shares in Hua Thai were held by the late Mr. WANG Seng Liang, the spouse of Ms. WANG KOO Yik Chun.

Save as disclosed above, as at 31 December 2009, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the 2010 AGM has a service contract with the Group, which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year ended 31 December 2009, none of the Directors have any interest in business apart from the Group's businesses which competes, or is likely to compete, either directly or indirectly, with the Group's businesses under rule 8.10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, the following persons (other than the Directors or the chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register kept by the Company pursuant to Section 336 of the SFO:

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

Note:

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

Save as disclosed above, as at 31 December 2009, no other person (other than a Director or the chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

EMOLUMENT POLICY

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

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

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

Details of the emoluments of the Directors for the year ended 31 December 2009 are set out in Note 14 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

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

MANAGEMENT CONTRACT

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

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales attributable to the Group's largest customer and the five largest customers combined were 26% and 60%, respectively.

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

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

CONTINUING CONNECTED TRANSACTIONS

On 10 January 2007, Hwa Fuh Manufacturing Company (Hong Kong) Limited ("Hwa Fuh"), a wholly-owned subsidiary of the Company, as tenant, entered into a tenancy agreement (the "Previous Tenancy Agreement") with TDB Company Limited ("TDB"), as landlord, in relation to the leasing of the premises at Ground and 2nd to 11th Floors, Tak Dah Industrial Building, 66–72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong (the "Premises") for a term of two years from 1 April 2007 to 31 March 2009.

On 9 January 2009, Hwa Fuh entered into a new tenancy agreement (the "New Tenancy Agreement") with TDB to renew the Previous Tenancy Agreement for the leasing of the Premises for a term of two years from 1 April 2009 to 31 March 2011.

As at the respective dates of the Previous Tenancy Agreement and the New Tenancy Agreement, the entire issued share capital of TDB was held by a discretionary trust of which Mr. WANG Kin Chung, Peter and Ms. WANG KOO Yik Chun, both being Directors, were eligible beneficiaries. TDB was therefore a connected person of the Company for the purpose of the Listing Rules. Accordingly, the entering into of the Previous Tenancy Agreement and the New Tenancy Agreement constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules (the "Continuing Connected Transactions").

Details of the Previous Tenancy Agreement were as follows:

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

Details of the New Tenancy Agreement were as follows:

Term	:	Two years from 1 April 2009 to 31 March 2011
Monthly rental	:	HK$371,435 (excluding management fees, government rates and government rent)
Use of the Premises	:	As factory, storage and ancillary office by the Company and certain of its subsidiaries

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

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

The Annual Cap paid or payable by Hwa Fuh under the New Tenancy Agreement for each of the three financial years ending 31 December 2011 was as follows:

Term	**Annual Cap** *HK$*
1 April 2009 to 31 December 2009	3,342,915
1 January 2010 to 31 December 2010	4,457,220
1 January 2011 to 31 March 2011	1,114,305

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

Further details of the Continuing Connected Transactions were set out in the announcements of the Company dated 10 January 2007 and 9 January 2009 (the "Announcements") respectively.

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

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

(ii) on normal commercial terms; and

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

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

(i) the Continuing Connected Transactions have been approved by the respective board of directors of the Company and Hwa Fuh;

(ii) the Continuing Connected Transactions have been entered into on terms in accordance with the Previous Tenancy Agreement and the New Tenancy Agreement; and

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

ACQUISITION OF A PROPERTY IN SHANGHAI

On 21 December 2009, the bid made by Shanghai Tristate Enterprises Co., Ltd. ("Shanghai Tristate"), a wholly-owned subsidiary of the Company, to purchase a commercial property (the "Property") in a public auction was successful at a purchase price of HK$119,414,000 (equivalent to RMB105,127,000) (the "Acquisition"). The Acquisition was completed subsequent to the year end and Shanghai Tristate obtained the Shanghai Certificate of Real Estate Ownership on 22 March 2010.

The Property comprises two adjoining 7-storey and 2-storey buildings located at 上海靜安區鎮寧路162號6幢號、7幢號 (Blocks 6 and 7, No. 162 Zhenning Road, Jing'an Qu, Shanghai), the People's Republic of China, with an aggregate gross floor area of approximately 4,120 square meter. The Group's sourcing and branded products distribution departments are now situated at different premises in Shanghai. The Group plans to centralise its various operations in Shanghai in this Property, which will also provide additional space to accommodate the Group's growing sourcing operations. Further details of the Acquisition were set out in the announcement and the circular of the Company dated 21 December 2009 and 26 February 2010 respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the year ended 31 December 2009, except for the deviation from code provision A.2.1 which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Considered reasons for the deviation from code provision A.2.1 as well as further information of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 10 to 21.

CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

Changes in Directors' biographical details since the date of the Company's interim report for the six months ended 30 June 2009 issued in September 2009, which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules, are set out below:

Mr. WANG Kin Chung, Peter

Cessation of appointment

- Member of the executive committee of The Hong Kong Shippers' Council

Save for the information disclosed above, there is no other information required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

AUDITOR

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

On behalf of the Board

WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Hong Kong, 29 March 2010

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

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

We have audited the consolidated financial statements of Tristate Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 36 to 104, which comprise the consolidated and Company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2010

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Revenue	5	**2,828,809**	3,491,630
Cost of sales		**(2,187,194)**	(2,783,140)
Gross profit		**641,615**	708,490
Other income and other gains/(losses)	5	**7,675**	25,471
Selling and distribution expenses		**(165,068)**	(162,239)
General and administrative expenses		**(381,146)**	(452,165)
Restructuring costs	6	**(179,429)**	–
Provision for impairment on intangible assets	20(c)	**(11,085)**	–
(Loss)/profit from operations	7	**(87,438)**	119,557
Finance income	8	**4,302**	8,008
Finance costs	8	**(9,062)**	(12,394)
Share of losses of associates	22	**(1,472)**	(2,696)
Provision for impairment in an associate	22	**(3,519)**	(2,775)
(Loss)/profit before income tax		**(97,189)**	109,700
Income tax expense	9	**(6,709)**	(7,218)
(Loss)/profit for the year		**(103,898)**	102,482
Attributable to:			
Equity holders of the Company	10	**(103,862)**	102,517
Minority interests		**(36)**	(35)
		(103,898)	102,482
Dividends	11	**26,874**	40,310
(Loss)/earnings per share attributable to equity holders of the Company:			
Basic	12	**(HK$0.39)**	HK$0.38
Diluted	12	**(HK$0.39)**	HK$0.38

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

	2009	2008
	HK$'000	*HK$'000*
(Loss)/profit for the year	**(103,898)**	102,482
Other comprehensive income:		
Fair value (losses)/gains on cash flow hedges		
(Losses)/gains arising during the year	**(28,166)**	37,523
Transfer to the consolidated income statement	**15,611**	(23,315)
Income tax effect	**197**	(469)
Fair value (loss)/gain on net investment hedge	**(1,634)**	19,668
Currency translation differences		
Gain/(loss) arising during the year	**4,315**	(20,309)
Transfer from translation reserve to the consolidated income statement	**133,589**	–
Asset revaluation reserve		
Reduction upon impairment of assets	**(1,572)**	–
Income tax effect	**520**	4
Other comprehensive income, net of tax	**122,860**	13,102
Total comprehensive income for the year	**18,962**	115,584
Attributable to:		
Equity holders of the Company	**19,003**	115,629
Minority interests	**(41)**	(45)
	18,962	115,584

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**593,913**	571,338
Investment properties	17	**481**	1,065
Leasehold land and land use rights	18	**34,468**	27,824
Intangible assets	20	**140,074**	159,738
Other long-term assets	21	**18,454**	19,627
Deferred income tax assets	33	**9,071**	6,676
Defined benefit plan assets	31	**4,211**	–
Investments in associates	22	**–**	4,991
		800,672	791,259
CURRENT ASSETS			
Inventories	23	**271,970**	343,472
Accounts receivable and bills receivable	24	**293,327**	384,874
Forward foreign exchange contracts	25	**1,639**	45,621
Prepayments and other receivables	26	**130,232**	73,445
Cash and bank balances	27	**401,403**	300,349
		1,098,571	1,147,761
Non-current assets held for sale		**2,887**	5,599
		1,101,458	1,153,360
CURRENT LIABILITIES			
Accounts payable and bills payable	28	**165,195**	185,269
Accruals and other payables	29	**260,921**	205,633
Forward foreign exchange contracts	25	**10,084**	–
Current income tax liabilities		**48,648**	43,674
Bank borrowings	30	**170,343**	210,842
		655,191	645,418
NET CURRENT ASSETS		**446,267**	507,942
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,246,939**	1,299,201
NON-CURRENT LIABILITIES			
Retirement benefits and other post retirement obligations	31	**15,205**	33,694
License fees payable	32	**111,308**	124,247
Deferred income tax liabilities	33	**69,045**	83,629
Other long-term liabilities	34	**5,054**	6,589
		200,612	248,159
NET ASSETS		**1,046,327**	1,051,042
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	35	**26,874**	26,874
Reserves	36	**1,019,052**	1,023,726
		1,045,926	1,050,600
Minority interests		**401**	442
TOTAL EQUITY		**1,046,327**	1,051,042

Approved by the Board of Directors on 29 March 2010 and signed on its behalf by:

WANG Kin Chung, Peter
Director

MAK WANG Wing Yee, Winnie
Director

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

	Note	**2009 HK$'000**	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**1,658**	744
Investments in subsidiaries	19(a)	**449,776**	481,939
Other long-term assets	21	**7,415**	8,985
Deferred income tax assets	33	**113**	286
		458,962	491,954
CURRENT ASSETS			
Amounts due from subsidiaries	19(b)	**190,683**	165,256
Prepayments and other receivables	26	**1,210**	1,543
Cash and bank balances	27	**8,012**	5,148
		199,905	171,947
CURRENT LIABILITIES			
Accruals and other payables		**8,399**	11,872
Amounts due to subsidiaries	19(b)	**8,835**	9,149
		17,234	21,021
NET CURRENT ASSETS		**182,671**	150,926
TOTAL ASSETS LESS CURRENT LIABILITIES		**641,633**	642,880
NON-CURRENT LIABILITIES			
Retirement benefits and other post retirement obligations	31	**8,238**	12,340
NET ASSETS		**633,395**	630,540
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	35	**26,874**	26,874
Reserves	36	**606,521**	603,666
TOTAL EQUITY		**633,395**	630,540

Approved by the Board of Directors on 29 March 2010 and signed on its behalf by:

WANG Kin Chung, Peter
Director

MAK WANG Wing Yee, Winnie
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to equity holders of the Company				
	Share capital *HK$'000*	**Reserves** *HK$'000*	**Total** *HK$'000*	**Minority interests** *HK$'000*	**Total equity** *HK$'000*
As at 1 January 2009	**26,874**	**1,023,726**	**1,050,600**	**442**	**1,051,042**
Total comprehensive income for the year	**–**	**19,003**	**19,003**	**(41)**	**18,962**
	26,874	**1,042,729**	**1,069,603**	**401**	**1,070,004**
Share option scheme – value of employee services	**–**	**509**	**509**	**–**	**509**
Dividends paid to equity holders of the Company	**–**	**(24,186)**	**(24,186)**	**–**	**(24,186)**
As at 31 December 2009	**26,874**	**1,019,052**	**1,045,926**	**401**	**1,046,327**

	Attributable to equity holders of the Company				
	Share capital *HK$'000*	Reserves *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
As at 1 January 2008	26,874	956,113	982,987	487	983,474
Total comprehensive income for the year	–	115,629	115,629	(45)	115,584
	26,874	1,071,742	1,098,616	442	1,099,058
Share option scheme – value of employee services	–	356	356	–	356
Dividends paid to equity holders of the Company	–	(48,372)	(48,372)	–	(48,372)
As at 31 December 2008	26,874	1,023,726	1,050,600	442	1,051,042

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

	Note	2009 *HK$'000*	2008 *HK$'000*
Operating activities			
Cash generated from operations	40(a)	**266,295**	242,123
Income tax paid		**(20,576)**	(19,344)
Income tax refund		**2,261**	2,301
Purchase of tax reserve certificates		**(5,077)**	(10,152)
Payment of license fees		**(13,239)**	(10,366)
Net cash generated from operating activities		**229,664**	204,562
Investing activities			
Interest received		**4,302**	8,008
Purchase of property, plant and equipment		**(95,601)**	(165,423)
Purchase of leasehold land and land use rights		**(11,109)**	–
Proceeds from disposals of property, plant and equipment and leasehold land	40(b)	**15,089**	2,292
Proceeds from disposals of investment properties		**–**	23,990
Acquisition of a subsidiary		**–**	(94,127)
Increase in pledged bank deposits		**(3,408)**	(15,498)
Proceed from a matured forward foreign exchange contract – net investment hedge		**26,113**	–
Net cash used in investing activities		**(64,614)**	(240,758)
Financing activities			
Interest paid		**(3,819)**	(9,159)
Dividends paid to equity holders of the Company		**(24,186)**	(48,372)
New bank borrowings		**570,830**	1,136,967
Repayment of bank borrowings		**(611,329)**	(1,153,217)
Net cash used in financing activities		**(68,504)**	(73,781)
Increase/(decrease) in cash and cash equivalents		**96,546**	(109,977)
Cash and cash equivalents at beginning of the year	27	**284,851**	389,398
Effect on foreign exchange rate changes		**1,100**	5,430
Cash and cash equivalents at end of the year	27	**382,497**	284,851

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

1. GENERAL INFORMATION

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

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

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

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors of the Company (the "Board") on 29 March 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements comprise the consolidated and the Company's statement of financial position as at 31 December 2009, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

(a) Basis of preparation

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(i) New standards, amendments and interpretation to existing standards effective in 2009

In 2009, the Group has adopted the following new standards, amendments and interpretation to existing standards which are mandatory for the first time for the Group's financial year beginning 1 January 2009 and are relevant to the Group's operations. The impact on the Group's accounting policies upon adoption is set out below:

HKAS 1 (Revised), 'Presentation of Financial Statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

HKFRS 7 (Amendment), 'Financial Instruments: Disclosures'. The amendment increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures and requires some specific quantitative disclosures for those instruments classified in the lowest level in the hierarchy. These disclosures help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. It also requires a maturity analysis for financial assets where the information is needed to understand the nature and context of liquidity risk. The Group has included additional relevant disclosures in the consolidated financial statements.

HKFRS 8, 'Operating Segments'. HKFRS 8 replaces HKAS 14, 'Segment Reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes to the chief operating decision maker. The adoption of HKFRS 8 resulted in no change in the identification of reportable segments presented in the consolidated financial statements but has led to increased disclosures. The unallocated assets and liabilities and their results under the previous HKAS 14 presentation are included under the reportable segments after the adoption of HKFRS 8. The 2008 comparative figures have also been presented on the same basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(i) New standards, amendments and interpretation to existing standards effective in 2009 (Continued)

HK(IFRIC*) – Interpretation 13, 'Customer Loyalty Programmes'. HK(IFRIC) – Interpretation 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The adoption of HK(IFRIC) – Interpretation 13 has no material impact on the consolidated financial statements.

* IFRIC: International Financial Reporting Interpretations Committee

(ii) New standards and amendments to existing standards that are not effective and have not been early adopted by the Group

The following new standards and amendments to existing standards relevant to the Group have been issued, but are not effective for the financial year beginning 1 January 2009 and the Group has not early adopted them:

HKFRS 2 (Amendment), 'Group Cash-settled Share-based Payment Transactions' (effective for annual period starting from 1 January 2010). In addition to incorporating HK(IFRIC) – Interpretation 8, 'Scope of HKFRS 2' and HK(IFRIC) – Interpretation 11, 'HKFRS 2 – Group and Treasury Share Transactions', the amendment expands on the guidance in HK(IFRIC) – Interpretation 11 to address the classification of group arrangements that were not covered by the interpretation. The new guidance is not expected to have a material impact on the Group's financial statements.

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

HKFRS 9, 'Financial Instruments' (effective for annual period starting from 1 January 2013). HKFRS 9 improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of HKAS 39. The approach in HKFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The Group will apply HKFRS 9 from 1 January 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(ii) New standards and amendments to existing standards that are not effective and have not been early adopted by the Group (Continued)

HKAS 24 (Revised), 'Related Party Disclosures' (effective for annual period starting from 1 January 2011). HKAS 24 (Revised) simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The Group will apply HKAS 24 (Revised) from 1 January 2011.

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

In addition, HKICPA has published a number of amendments for the existing standards under its annual improvements project. These amendments are expected to have no material impact to the consolidated financial statements of the Group.

(b) Consolidation

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

(i) Subsidiaries

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Consolidation (Continued)

(i) Subsidiaries (Continued)

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

(ii) Transactions with minority interests

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

(iii) Associates

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

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

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

(c) Foreign currency translation

(i) Functional and presentation currency

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign currency translation (Continued)

(ii) Transactions and balances

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

(iii) Group companies

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognised as a separate component of other comprehensive income.

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

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

(d) Property, plant and equipment

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment (Continued)

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

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

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

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

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

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

(e) Investment properties

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Leasehold land and land use rights

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

(g) Intangible assets

(i) Goodwill

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

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

(ii) License rights/License fees payable

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Inventories

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

(i) Accounts receivable and bills receivable

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

(j) Accounts payable and bills payable

Accounts payable and bills payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

(k) Provisions

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Provisions (Continued)

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

(l) Employee benefits

(i) Employee leave entitlements

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

(ii) Retirement benefits

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Employee benefits (Continued)

(iii) Share-based compensation

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

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

(m) Current and deferred income tax

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Current and deferred income tax (Continued)

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(n) Borrowings

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

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

(o) Borrowing costs

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

(p) Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Revenue recognition (Continued)

Commission income is recognised when services are rendered.

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

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

(q) Leases

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

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

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

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(s) Dividend distribution

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

(t) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer and Senior Management who make strategic decisions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Cash and cash equivalents

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

(v) Contingent liabilities and contingent assets

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

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

(w) Government grants

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

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

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

(x) Non-current assets held for sale

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Financial guarantees

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

(z) Derivative financial instruments and hedging activities

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

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

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

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

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 25. Movements on the hedging reserve/translation reserve in other comprehensive income are shown in Note 36. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Cash flow hedge

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(a) Cash flow hedge (Continued)

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

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

(b) Net investment hedge

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

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

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

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

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

(aa) Share capital

Ordinary shares are classified as equity.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

Financial assets and financial liabilities carried on the statement of financial position include cash and cash equivalents, accounts receivable, bills receivable, other receivables, forward foreign exchange contracts, long-term rental deposits, deposits with a financial institution, accounts payable, bills payable, other payables, bank borrowings, license fees payable and other long-term liabilities.

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

(a) Market risk

(i) Foreign exchange risk

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

For the year ended 31 December 2009, sales of the goods were mainly denominated in United States dollars and Pound Sterling. The major currency for purchases was United States dollars. In addition, entities within the Group (whose functional currencies are Renminbi, Philippine Pesos, Thai Bahts and Vietnam Dongs) have monetary assets and liabilities denominated in Hong Kong dollars and United States dollars.

The Group has entered into forward foreign exchange contracts to hedge against its net investment in the United Kingdom (the "UK"). Further, the Group has entered into forward foreign exchange contracts to hedge against the foreign exchange exposures arising from United States dollars denominated processing income for factories in the People's Republic of China (the "PRC"), Thailand and Vietnam, Pound Sterling for sales receipts from customers and Euro for payments to suppliers.

In relation to foreign exchange risks mentioned above, as at 31 December 2009, if Pound Sterling against Hong Kong dollars had been strengthened/weakened by 1% with all other variables held constant, the post-tax loss for the year and the other comprehensive income would be increased/decreased by HK$58,000 and decreased/increased by HK$751,000 respectively, mainly as a result of the change in fair value of forward foreign exchange contracts at the end of the reporting period.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

As at 31 December 2009, if Renminbi against Hong Kong dollars had been strengthened/weakened by 3% with all other variables held constant, the post-tax loss for the year would be decreased/increased by HK$5,961,000 mainly as a result of foreign exchange gains/losses on translation of Hong Kong dollars denominated net liabilities of the PRC subsidiaries; while the other comprehensive income would be increased/decreased by HK$406,000, representing the change in fair value of forward foreign exchange contracts at the end of the reporting period.

If Philippine Pesos, Thai Bahts and Vietnam Dongs had strengthened/weakened against Hong Kong dollars by 3% at the year end with all other variables held constant, the effect on post-tax loss for the year would not be significant.

(ii) Cash flow and fair value interest rate risk

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

As at 31 December 2009, if interest rate on borrowings had increased/decreased by 50 basis points with all other variables held constant, the effect on post-tax loss for the year would not be significant.

Management considers the fair value interest rate risk related to the borrowings is insignificant.

(b) Liquidity risk

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

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The cash flow requirements for derivative financial instrument arising from forward foreign exchange contracts are separately provided as the contractual maturities are essential for the understanding of the timing of the cash flow. Comparative information has been restated as permitted by the amendment to HKFRS 7 for the liquidity risk disclosure.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Liquidity risk (Continued)

Group

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Total HK$'000
As at 31 December 2009				
Accounts payable and bills payable	**165,195**	**–**	**–**	**165,195**
Accruals and other payables	**239,918**	**–**	**–**	**239,918**
Bank borrowings and interest payment	**170,792**	**–**	**–**	**170,792**
License fees payable	**16,640**	**24,305**	**101,990**	**142,935**
Other long-term liabilities	**4,363**	**4,488**	**1,154**	**10,005**
	596,908	**28,793**	**103,144**	**728,845**

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

All the Group's forward foreign exchange contracts are in hedge relationships and are due to settle within 12 months at the end of each reporting period. The gross settlement contracts require undiscounted contractual cash inflows of HK$136,398,000 (2008: HK$119,380,000) and undiscounted cash outflows of HK$138,497,000 (2008: HK$100,177,000). The net settlement contracts require undiscounted cash outflows of HK$6,343,000 (2008: cash inflows of HK$27,093,000).

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Liquidity risk (Continued)

Company

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
As at 31 December 2009				
Accruals and other payables	**8,399**	**–**	**–**	**8,399**
Amounts due to subsidiaries	**8,835**	**–**	**–**	**8,835**
	17,234	**–**	**–**	**17,234**

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2008				
Accruals and other payables	11,872	–	–	11,872
Amounts due to subsidiaries	9,149	–	–	9,149
	21,021	–	–	21,021

(c) Credit risk

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

The Group's sales are mainly on open account, which are substantially covered by credit insurance. Derivative counter parties and cash transactions are limited to high-credit-quality financial institutions. As at 31 December 2009, all bank balances and bank deposits were held at reputable financial institutions. Deteriorating operating conditions of customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in the assets impairment assessment.

3.2 Capital risk management

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

Total capital comprises 'equity' as shown in the consolidated statement of financial position plus net borrowing, if any. During the years ended 31 December 2009 and 2008, the Group had no net borrowings, which is calculated as total borrowings less cash and cash equivalents.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

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

On 1 January 2009, the Group adopted the HKFRS 7 (Amendment) for financial instruments that are measured in the statement of financial position at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2009.

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Assets				
Forward foreign exchange contracts	–	1,639	–	1,639
Total assets	–	1,639	–	1,639
Liabilities				
Forward foreign exchange contracts	–	(10,084)	–	(10,084)
Total liabilities	–	(10,084)	–	(10,084)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT (Continued)

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

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

(b) Estimated impairment of investments in subsidiaries, investments in associates and non-financial assets

The Group assesses annually whether investments in subsidiaries, investments in associates and non-financial assets have suffered any impairment in accordance with the accounting policy stated in Note 2(r). The recoverable amounts have been determined based on value in use calculations or market valuations. These calculations require the use of judgement and estimates. Management believes that any reasonable possible change in any of these assumptions would not cause the aggregate carrying amounts of cash-generating units to exceed their recoverable amounts.

(c) Current and deferred income taxes

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

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

(d) Estimated impairment of receivables

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT (Continued)

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

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

(f) Retirement benefits

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

5. REVENUE/INCOME AND SEGMENT INFORMATION

(a) Revenue/income by nature

	2009	2008
	HK$'000	*HK$'000*
Revenue		
Sales of goods	**2,815,955**	3,474,976
Commission income	**12,854**	16,654
	2,828,809	3,491,630
Other income and other gains/(losses)		
Net gain on disposals of investment properties	**–**	17,567
Net gain/(loss) on disposals of property, plant and equipment	**4,003**	(1,277)
Net loss on disposals of leasehold land	**(217)**	(996)
Rental income from investment properties	**884**	1,283
Change in fair value of derivative financial instruments	**(277)**	2,792
Gain on ineffectiveness arising from net investment hedge	**763**	1,113
Contribution from a customer	**–**	2,240
Quota income	**–**	494
Insurance claim income	**–**	1,634
Government subsidies	**1,202**	–
Sundry income	**1,317**	621
	7,675	25,471
	2,836,484	3,517,101

5. REVENUE/INCOME AND SEGMENT INFORMATION (Continued)

(b) Segment information

Reportable segments are identified and reported in the manner consistent with internal reports of the Group that are regularly reviewed by the chief operating decision makers (the Chief Executive Officer and Senior Management) in order to assess performance and allocate resources. The chief operating decision makers assess the performance of the reportable segments based on the profit and loss generated.

The Group has two reportable segments: (i) garment manufacturing, and (ii) branded product distribution, retail and trading. The segment information is as follows:

	Garment manufacturing		Branded product distribution, retail and trading		Total	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**2,353,187**	3,159,593	**475,622**	332,037	**2,828,809**	3,491,630
(Loss)/profit for the year	**(131,011)**	91,554	**27,113**	10,928	**(103,898)**	102,482

	Garment manufacturing		Branded product distribution, retail and trading		Total	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Total assets	**1,551,655**	1,667,865	**350,475**	276,754	**1,902,130**	1,944,619
including:						
Investments in associates	**–**	4,991	**–**	–	**–**	4,991
Additions to non-current assets *(Note)*	**101,776**	201,043	**4,934**	135,119	**106,710**	336,162
Total liabilities	**642,889**	713,302	**212,914**	180,275	**855,803**	893,577

5. REVENUE/INCOME AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

	Garment manufacturing		Branded product distribution, retail and trading		Total	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Finance income	**3,505**	6,759	**797**	1,249	**4,302**	8,008
Finance costs	**(4,264)**	(9,558)	**(4,798)**	(2,836)	**(9,062)**	(12,394)
Share of losses of associates	**(1,472)**	(2,696)	**–**	–	**(1,472)**	(2,696)
Provision for impairment in an associate	**(3,519)**	(2,775)	**–**	–	**(3,519)**	(2,775)
Income tax credit/(expense)	**3,855**	(2,595)	**(10,564)**	(4,623)	**(6,709)**	(7,218)
Amortisation of leasehold land and land use rights	**(1,033)**	(856)	**–**	–	**(1,033)**	(856)
Amortisation of license rights	**–**	–	**(9,783)**	(5,478)	**(9,783)**	(5,478)
Depreciation on property, plant and equipment	**(56,304)**	(51,718)	**(5,670)**	(5,613)	**(61,974)**	(57,331)
Depreciation on investment properties	**(28)**	(35)	**–**	–	**(28)**	(35)
Provision for impairment on property, plant and equipment	**(1,285)**	–	**(126)**	(4,025)	**(1,411)**	(4,025)
Provision for impairment on intangible assets	**–**	–	**(11,085)**	–	**(11,085)**	–
Provision for impairment of receivables, net	**(4,213)**	(1,387)	**–**	(55)	**(4,213)**	(1,442)
Write-down of inventories to net realisable value, net	**(6,948)**	(18,176)	**(1,349)**	(2,146)	**(8,297)**	(20,322)
Net gain on disposals of investment properties	**–**	17,567	**–**	–	**–**	17,567
Restructuring costs	**(179,429)**	–	**–**	–	**(179,429)**	–

The Group's revenue is mainly derived from customers located in the United States of America, the UK and the PRC, while the Group's production facilities and other assets are located predominantly in the PRC and Thailand. The PRC includes the mainland of the PRC, Hong Kong and Macau. An analysis of the Group's revenue by location of customers and an analysis of the Group's non-current assets by location of assets are as follows:

	The United States of America		UK		PRC		Other countries		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**1,499,866**	2,094,412	**588,677**	715,011	**506,774**	458,120	**233,492**	224,087	**2,828,809**	3,491,630

Included in revenue derived from the PRC was HK$111,877,000 (2008: HK$92,796,000) related to revenue generated in Hong Kong.

5. REVENUE/INCOME AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

For the year ended 31 December 2009, revenues from two customers in the garment manufacturing segment each accounted for more than 10% of the Group's total revenue and represented approximately 26% and 15% (2008: 25% and 13%) of the total revenue respectively.

	PRC		Thailand		Other locations		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Non-current assets *(Note)*	**541,734**	515,382	**139,797**	146,107	**105,859**	123,094	**787,390**	784,583

Included in non-current assets located in the PRC was HK$156,742,000 (2008: HK$177,532,000) related to assets located in Hong Kong.

Note: Non-current assets exclude deferred income tax assets and defined benefit plan assets.

6. RESTRUCTURING COSTS

Restructuring costs comprise the following:

	2009	2008
	HK$'000	*HK$'000*
Redundancy costs	**32,989**	–
Net losses on curtailments and settlements of long service payment liabilities *(Note 31(c))*	**13,743**	–
Net gains on curtailments and settlements of defined benefit plans *(Note 31(b))*	**(15,266)**	–
Total employment related costs	**31,466**	–
Impairment on property, plant and equipment and land use right	**12,622**	–
Provision for onerous lease contract	**1,752**	–
Realisation of accumulated translation reserve *(Note 36)*	**133,589**	–
	179,429	–

During the year, the Group has restructured its overseas operations, including closing down/ scaling down three factories located in the Philippines, the PRC and Thailand respectively, and has implemented plans to liquidate certain subsidiaries. In this connection, redundancy costs were incurred and the related portion of the accumulated translation reserve was transferred from translation reserve to the consolidated income statement.

7. (LOSS)/PROFIT FROM OPERATIONS

(Loss)/profit from operations is stated after crediting and charging the following:

	2009	2008
	HK$'000	*HK$'000*
Crediting		
Net rental income from investment properties	**820**	1,038
Net exchange gain	**3,205**	–
Charging		
Depreciation on property, plant and equipment	**61,974**	57,331
Depreciation on investment properties	**28**	35
Provision for impairment on property, plant and equipment	**1,411**	4,025
Provision for impairment on intangible assets	**11,085**	–
Amortisation of leasehold land and land use rights	**1,033**	856
Amortisation of license rights	**9,783**	5,478
Provision for impairment of receivables, net	**4,213**	1,442
Write-down of inventories to net realisable value, net	**8,297**	20,322
Employment expenses *(Note 13)*	**584,661**	703,021
Less: Amounts included in restructuring costs *(Note 6)*	**(31,466)**	–
	553,195	703,021
Operating lease rental in respect of land and buildings	**62,964**	60,512
Auditors' remuneration	**4,350**	5,312
Net exchange loss	**–**	2,402

8. FINANCE INCOME/FINANCE COSTS

	2009	2008
	HK$'000	*HK$'000*
Finance income		
Interest income from bank deposits	**4,302**	8,008
Finance costs		
Interest on bank loans	**3,819**	9,159
Imputed interest on license fees payable	**4,797**	2,836
Imputed interest on other long-term liabilities	**446**	399
	9,062	12,394

9. INCOME TAX EXPENSE

	2009	2008
	HK$'000	*HK$'000*
Current income tax		
Hong Kong profits tax	**7,982**	8,912
Non-Hong Kong tax	**16,517**	13,500
Deferred income tax	**(17,790)**	(15,194)
	6,709	7,218

9. INCOME TAX EXPENSE (Continued)

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits for the year. Income taxes on non-Hong Kong profits have been calculated on the estimated assessable profits at the applicable income tax rates prevailing in the countries/places in which the Group operates.

Subsidiaries established and operated in the Mainland China are subject to the Mainland China Enterprise Income Tax at the rates ranging from 20% to 25% for the year (2008: 18% to 25%). In accordance with the applicable tax regulations in the Mainland China, certain subsidiaries are entitled to income tax reductions.

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

	2009 ***HK$'000***	2008 *HK$'000*
(Loss)/profit before income tax	**(97,189)**	109,700
Add: Share of losses of associates	**1,472**	2,696
	(95,717)	112,396
Tax calculated at weighted average tax rate applicable to profits in the respective countries/places	**(19,414)**	(5,522)
Income not subject to tax	**(13,167)**	(10,584)
Expenses not deductible for tax	**34,759**	8,021
Utilisation of previously unrecognised tax losses	**(1,628)**	(2,487)
Unrecognised current year tax losses	**5,862**	18,218
Net under provision in prior years	**762**	215
Net increase in net deferred tax assets resulting from change in tax rates	**(465)**	(643)
Income tax expense	**6,709**	7,218

The weighted average applicable domestic tax rate was 18% for the year ended 31 December 2009 (2008: 15%). The increase is caused by a change in mix of profits earned by different Group companies which are subject to different tax rates.

There were no share of income tax expenses of associates for the year ended 31 December 2009 (2008: Nil) included in the consolidated income statement as share of losses of associates.

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

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$26,606,000 (2008: HK$94,942,000).

11. DIVIDENDS

	2009 HK$'000	2008 HK$'000
Interim dividend paid – Nil (2008: HK$0.06) per share	–	16,124
Final dividend proposed – HK$0.10 (2008: HK$0.09) per share	26,874	24,186
	26,874	40,310

A final dividend for the year ended 31 December 2009 of HK$0.10 per share, totalling HK$26,874,000 (2008: HK$0.09 per share, totalling HK$24,186,000), is recommended by the Board for approval at the forthcoming annual general meeting of the Company. This proposed dividend has not been dealt with as dividend payable as at 31 December 2009, and will be reflected as an appropriation of retained earnings for the year ending 31 December 2010.

12. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated by dividing the consolidated loss attributable to equity holders of the Company for the year ended 31 December 2009 of HK$103,862,000 (2008: profit of HK$102,517,000) by the weighted average number of shares in issue during the year of 268,735,253 (2008: 268,735,253).

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares granted under the Company's share option scheme. As the exercise prices of the share options granted by the Company was higher than the relevant average market prices of the Company's shares for the year ended 31 December 2009, those outstanding share options granted, which amounted to 2,992,000 shares as at 31 December 2009, have no dilutive effect on loss per share for the year ended 31 December 2009.

13. EMPLOYMENT EXPENSES

	2009 HK$'000	2008 HK$'000
Directors' emoluments *(Note 14)*	6,941	8,227
Wages, salaries, allowances and bonuses	528,028	632,716
Welfare and other benefits	28,743	38,767
Retirement benefits		
– Defined contribution plans	19,238	20,125
– Defined benefit plans *(Note 31(b))*	(15,654)	(501)
– Long service payment liabilities *(Note 31(c))*	14,959	2,888
– Others	1,897	443
Share-based compensation expense – share options granted *(Note 37)*	509	356
Total employment expenses	584,661	703,021
Less: Amounts included in restructuring costs *(Note 6)*	(31,466)	–
	553,195	703,021

14. DIRECTORS' EMOLUMENTS

Details of the directors' emoluments are set out below:

Name	Fees	Salary and other benefits	Discretionary bonuses	Employer's contribution to retirement benefit schemes	2009 Total	2008 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Director:						
Mr. WANG Kin Chung, Peter	–	4,617	730	139	5,486	6,793
Non-Executive Directors:						
Ms. WANG KOO Yik Chun	40	717	300	–	1,057	1,059
Ms. MAK WANG Wing Yee, Winnie	85	–	–	–	85	95
Dr. WANG Shui Chung, Patrick	60	–	–	–	60	30
Ms. Leslie TANG SCHILLING (resigned on 26 February 2009)	13	–	–	–	13	40
Independent Non-Executive Directors:						
Mr. LO Kai Yiu, Anthony	95	–	–	–	95	80
Mr. James Christopher KRALIK	85	–	–	–	85	85
Professor John Zhuang YANG	60	–	–	–	60	45
	438	5,334	1,030	139	6,941	8,227

No director waived his/her emoluments during the year (2008: Nil).

15. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2009 include one (2008: one) director, whose emoluments are disclosed in Note 14. Details of emoluments of the other four (2008: four) individuals are as follows:

	2009	2008
	HK$'000	*HK$'000*
Salaries, allowances and other benefits	6,927	12,089
Discretionary bonuses	3,056	1,271
Contribution to retirement benefit schemes	184	274
Other retirement benefit	1,897	–
	12,064	13,634

15. FIVE HIGHEST PAID INDIVIDUALS (Continued)

The emoluments of these four (2008: four) individuals are within the following bands:

	Number of employees 2009	2008
HK$2,000,001 – HK$2,500,000	**1**	2
HK$2,500,001 – HK$3,000,000	**2**	–
HK$3,000,001 – HK$3,500,000	**–**	–
HK$3,500,001 – HK$4,000,000	**1**	1
HK$4,500,001 – HK$5,000,000	**–**	1
	4	4

During the year, no emoluments were paid to the five highest paid individuals as an inducement to join the Group or as compensation for loss of office (2008: Nil).

16. PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Freehold land+ *HK$'000*	Buildings+ *HK$'000*	Plant and machinery *HK$'000*	Leasehold improvements, furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Construction-in-progress *HK$'000*	Total *HK$'000*
As at 1 January 2009							
Cost or valuation	87,883	275,309	334,224	258,884	28,640	140,835	1,125,775
Accumulated depreciation and impairment	–	(44,349)	(263,113)	(222,526)	(24,449)	–	(554,437)
Net book amount	87,883	230,960	71,111	36,358	4,191	140,835	571,338
Year ended 31 December 2009							
Opening net book amount	87,883	230,960	71,111	36,358	4,191	140,835	571,338
Additions	–	22,076	15,054	9,493	2,545	46,433	95,601
Transfers/reclassifications	–	167,462	3,152	11,268	–	(181,882)	–
Transfers to non-current assets held for sale	–	(481)	–	–	–	–	(481)
Disposals	–	(2,039)	(55)	(1,619)	(504)	–	(4,217)
Impairment charged to other comprehensive income	–	(1,572)	–	–	–	–	(1,572)
Impairment charged to consolidated income statement	–	(7,905)	(3,917)	(1,873)	(100)	–	(13,795)
Depreciation	–	(26,496)	(17,792)	(15,733)	(1,953)	–	(61,974)
Exchange differences	3,652	5,080	253	(350)	32	346	9,013
Closing net book amount	91,535	387,085	67,806	37,544	4,211	5,732	593,913
As at 31 December 2009							
Cost or valuation	91,535	463,153	328,249	263,544	24,419	5,732	1,176,632
Accumulated depreciation and impairment	–	(76,068)	(260,443)	(226,000)	(20,208)	–	(582,719)
Net book amount	91,535	387,085	67,806	37,544	4,211	5,732	593,913

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Group (Continued)

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

\+ Freehold land is located in Thailand, Taiwan and the Philippines. The buildings are located in the PRC (including Hong Kong), Taiwan, Thailand and the Philippines. Apart from buildings located in the PRC with a net book amount of HK$233,326,000 constructed during the years ended 31 December 2007 to 31 December 2009, the freehold land and buildings were last revalued on 31 December 2006 by Vigers Appraisal & Consulting Limited, CB Richard Ellis (Thailand) Co., Ltd., CB Richard Ellis (Vietnam) Co. Ltd. and Jones Lang La Salle (Thailand) Ltd., independent valuers, on the basis of market value, with an aggregated value of HK$305,015,000. The net book value of freehold land and buildings as at 31 December 2009 would have been HK$400,586,000 (2008: HK$257,936,000) had they been stated at cost less accumulated depreciation.

Depreciation expense of HK$31,189,000 (2008: HK$29,053,000) is included in cost of sales, HK$4,234,000 (2008: HK$4,530,000) is included in selling and distribution expenses and HK$26,551,000 (2008: HK$23,748,000) is included in general and administrative expenses. Impairment charges of HK$12,384,000 (2008: Nil) is included in restructuring costs and HK$1,411,000 (2008: HK$4,025,000) is included in selling and distribution expenses.

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Company

	Plant and machinery HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
As at 1 January 2009				
Cost	**33**	**18,113**	**1,824**	**19,970**
Accumulated depreciation	**(33)**	**(18,065)**	**(1,128)**	**(19,226)**
Net book amount	**–**	**48**	**696**	**744**
Year ended 31 December 2009				
Opening net book amount	**–**	**48**	**696**	**744**
Additions	**–**	**12**	**1,678**	**1,690**
Disposals	**–**	**–**	**(437)**	**(437)**
Depreciation	**–**	**(25)**	**(314)**	**(339)**
Closing net book amount	**–**	**35**	**1,623**	**1,658**
As at 31 December 2009				
Cost	**33**	**18,125**	**1,955**	**20,113**
Accumulated depreciation	**(33)**	**(18,090)**	**(332)**	**(18,455)**
Net book amount	**–**	**35**	**1,623**	**1,658**

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

17. INVESTMENT PROPERTIES

	Group	
	2009	2008
	HK$'000	*HK$'000*
As at 1 January		
Cost	**1,725**	2,800
Accumulated depreciation and impairment	**(660)**	(1,151)
Net book amount	**1,065**	1,649
Year ended 31 December		
Opening net book amount	**1,065**	1,649
Depreciation	**(28)**	(35)
Disposals	**–**	(549)
Transfer to non-current assets held for sale	**(556)**	–
Closing net book amount	**481**	1,065
As at 31 December		
Cost	**925**	1,725
Accumulated depreciation and impairment	**(444)**	(660)
Net book amount	**481**	1,065

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

Depreciation expense of HK$28,000 (2008: HK$35,000) is included in general and administrative expenses.

18. LEASEHOLD LAND AND LAND USE RIGHTS

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

	Group	
	2009	2008
	HK$'000	*HK$'000*
In Hong Kong		
– Medium-term lease of 10 to 50 years	**894**	3,550
Outside Hong Kong		
– Medium-term lease of 10 to 50 years	**33,574**	23,995
– Short-term lease of less than 10 years	**–**	279
	33,574	24,274
	34,468	27,824

18. LEASEHOLD LAND AND LAND USE RIGHTS (Continued)

	2009 HK$'000	2008 HK$'000
As at 1 January		
Cost	**37,836**	38,254
Accumulated amortisation	**(10,012)**	(9,386)
Net book amount	**27,824**	28,868
Year ended 31 December		
Opening net book amount	**27,824**	28,868
Additions	**11,109**	–
Disposals	**(1,487)**	(1,281)
Amortisation	**(1,033)**	(856)
Impairment	**(238)**	–
Transfer to non-current asset held for sale	**(1,850)**	–
Exchange differences	**143**	1,093
Closing net book amount	**34,468**	27,824
As at 31 December		
Cost	**44,647**	37,836
Accumulated amortisation and impairment	**(10,179)**	(10,012)
Net book amount	**34,468**	27,824

Amortisation of HK$958,000 (2008: HK$451,000) is included in cost of sales and HK$75,000 (2008: HK$405,000) is included in general and administrative expenses. Impairment charges of HK$238,000 (2008: Nil) is included in restructuring costs.

19. SUBSIDIARIES

(a) Investments in subsidiaries

	Company	
	2009 HK$'000	2008 HK$'000
Unlisted shares, at cost	**398,171**	397,853
Amount due from a subsidiary	**105,845**	84,326
Less: Accumulated impairment losses	**(54,240)**	(240)
	449,776	481,939

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

(b) Amounts due from/to subsidiaries

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

19. SUBSIDIARIES (Continued)

(c) Particulars of principal subsidiaries, all of which are unlisted, as at 31 December 2009:

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
338 Apparel Limited	Hong Kong	Hong Kong	Branded product trading	HK$1,000,000	–	100%	100%
338-Apparel Company Limited	British Virgin Islands	United States of America	Liaison services	US$100	–	100%	100%
338 Fashion Co. Limited	Hong Kong	Hong Kong	Branded product distribution and retail	HK$3,000,000	–	100%	100%
338 Fashion (Macau) Company Limited	Macau	Macau	Branded product distribution and retail	MOP$25,000	–	100%	100%
A-Grade Garments Manufacturing Corporation	The Philippines	The Philippines	Inactive	P26,000,000	–	100%	100%
Advanced Fashions Technology Limited	British Virgin Islands	United States of America	Liaison services	US$1,000	100%	–	100%
All Asia Garment Industries, Inc.	The Philippines	The Philippines	Factory facilities leasing	P27,425,000	–	100%	100%
All Asia Industrial Co., Ltd.	Taiwan	Taiwan	Sales liaison services and sample making	NT$20,000,000	–	100%	100%
All Asia Industries Co., Ltd. *(Note (iii))*	PRC	PRC	Garment manufacturing	HK$53,500,000	–	100%	100%
All Asia Industries Limited	Hong Kong	Hong Kong	Investment holding	HK$4,000 (ordinary)	15%	85%	100%
				HK$1,500,600 (deferred) *(Note (i))*	15%	85%	100%
Apparel Trading & Property Ventures, Inc.	The Philippines	The Philippines	Investment holding	P7,500,000	–	100%	100%
Asia Wide Properties Company, Inc.	The Philippines	The Philippines	Investment holding	P5,500,000	–	100%	100%
Asia Wide Trading Co., Ltd.	Taiwan	Taiwan	General trading and sales liaison services	NT$6,600,000	–	100%	100%
Brilliant Idea International Limited	Hong Kong	Hong Kong	Investment holding	HK$100	–	100%	100%
昇韻管理咨詢(深圳)有限公司 *(Note (iii))*	PRC	PRC	Management consultancy services	RMB500,000	–	100%	100%
Chochuen Garment (Shenzhen) Co., Ltd. *(Note (iii))*	PRC	PRC	Garment manufacturing	HK$30,000,000	–	100%	100%

19. SUBSIDIARIES (Continued)

(c) Particulars of principal subsidiaries, all of which are unlisted, as at 31 December 2009 (Continued):

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
Dress Line Holdings, Inc.	The Philippines	The Philippines	Investment holding	P59,562,500 (common)	–	100%	100%
				P180,000,000 (preferred) *(Note (ii))*	–	100%	100%
Elite Fashion (Hong Kong) Limited	Hong Kong	Hong Kong	Sales and marketing services	HK$2	100%	–	100%
Elkin Trading Limited	Hong Kong	Hong Kong	Agency services	HK$100	–	100%	100%
Excellent Jade Limited	Hong Kong	Hong Kong	Garment trading and manufacturing	HK$10,000	–	100%	100%
Excellent Quality Apparel, Inc.	The Philippines	The Philippines	Garment manufacturing	P15,000,000	–	100%	100%
Fashion Express Company Limited	Thailand	Thailand	Inactive	THB100,000,000	–	99.86%	99.86%
Gold Flower Limited	Hong Kong	Hong Kong	General administrative and supporting services	HK$10,000	–	100%	100%
Guangzhou Excellent Fashion Design Company Limited *(Note (iii))*	PRC	PRC	Garment design and provision of technical services	RMB1,500,000	–	100%	100%
Guangzhou Tristate Industrial Co., Ltd. *(Note (iii))*	PRC	PRC	Garment manufacturing	HK$18,500,000	–	100%	100%
Hefei Tristate Garment Manufacturing Company Limited *(Note (iii))*	PRC	PRC	Garment manufacturing	RMB105,000,000	–	100%	100%
合肥賢法服裝有限公司 *(Note (iii))*	PRC	PRC	Trading of fabric, trims and accessories	RMB1,000,000	–	100%	100%
HFT Corp. Limited	Hong Kong	Hong Kong	Investment holding	HK$10,000,000	–	100%	100%
HT Trading Limited	Labuan, Malaysia	Macau	Garment trading and provision of services	US$1	–	99.87%	99.87%
Hua Thai Manufacturing Public Company Limited	Thailand	Thailand	Garment manufacturing and exporting	THB100,000,000	–	99.87%	99.87%
Hwa Fuh Manufacturing Company (Hong Kong) Limited	Hong Kong	Hong Kong	Garment trading and investment holding	HK$1,250,000	–	100%	100%
Joint Holdings & Trading Company Limited	Hong Kong	Hong Kong	Investment holding	HK$925 (ordinary)	–	100%	100%
				HK$7,200,075 (deferred) *(Note(i))*	–	100%	100%
Keybird Limited	Hong Kong	Hong Kong	Investment holding	HK$3,000,000	100%	–	100%

19. SUBSIDIARIES (Continued)

(c) Particulars of principal subsidiaries, all of which are unlisted, as at 31 December 2009 (Continued):

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding by Company	Effective shareholding by subsidiary	Effective shareholding by Group
Keyear Company Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	100%	–	100%
Prime-Time Company Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%	100%
Prosperous Year International Limited	British Virgin Islands	Macau	General services	US$100	–	100%	100%
Quality Time Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	100%	–	100%
Shanghai Tristate Enterprises Co., Ltd. *(Note (iii))*	PRC	PRC	Branded product distribution and retail	RMB28,850,000	–	100%	100%
Sharp Hero International Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	–	100%	100%
Sigsbee Investment Limited	The Republic of Liberia	Hong Kong	Investment holding	US$1	100%	–	100%
Sparkling Ocean Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$100	100%	–	100%
Tenmo Limited	Hong Kong	Hong Kong	Investment holding	HK$2,000,000	100%	–	100%
Timely Corporate Limited	Hong Kong	Hong Kong	Nominee and secretarial services	HK$1	100%	–	100%
Tristate Industrial Co., Ltd.	Taiwan	Taiwan	Sales liaison services and sample making	NT$20,000,000	–	100%	100%
Tristate Trading Limited	Labuan, Malaysia	Macau	Garment trading	US$1	–	100%	100%
TT&Co Asia Limited	Hong Kong	Hong Kong	General trading	HK$10,000	–	100%	100%
Upgain (Laos) Manufacturing Company Limited	Laos	Laos	Inactive	US$10,950,000	–	99.86%	99.86%
Upgain Limited	British Virgin Islands	Thailand	Investment holding	US$16,000,000	–	99.87%	99.87%
Upgain (Vietnam) Manufacturing Company Limited	Vietnam	Vietnam	Garment manufacturing	US$4,000,000	–	99.87%	99.87%
Velmore Holdings Limited	England	England	Investment holding	GBP558,335.60	–	100%	100%
Velmore Limited	England	England	Design and customer support services	GBP30,000	–	100%	100%
Velmore Sarl	Morocco	Morocco	Quality assurance and warehouse services	Dirhams100,000	–	100%	100%
Zhejiang Huazhang Garment Co., Ltd. *(Note (iii))*	PRC	PRC	Garment manufacturing	US$3,800,000	–	100%	100%

19. SUBSIDIARIES (Continued)

(c) Particulars of principal subsidiaries, all of which are unlisted, as at 31 December 2009 (Continued):

Notes:

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

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

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

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2009.

20. INTANGIBLE ASSETS

		Group	
	Goodwill	**License rights**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
As at 1 January 2009			
Cost	**20,401**	**144,815**	**165,216**
Accumulated amortisation	**–**	**(5,478)**	**(5,478)**
Net book amount	**20,401**	**139,337**	**159,738**
Year ended 31 December 2009			
Opening net book amount	**20,401**	**139,337**	**159,738**
Amortisation	**–**	**(9,783)**	**(9,783)**
Impairment	**–**	**(11,085)**	**(11,085)**
Exchange differences	**1,204**	**–**	**1,204**
Closing net book amount	**21,605**	**118,469**	**140,074**
As at 31 December 2009			
Cost	**21,605**	**144,815**	**166,420**
Accumulated amortisation and impairment	**–**	**(26,346)**	**(26,346)**
Net book amount	**21,605**	**118,469**	**140,074**

20. INTANGIBLE ASSETS (Continued)

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

Amortisation of HK$9,783,000 (2008: HK$5,478,000) is included in the selling and distribution expenses in the consolidated income statement.

Notes:

(a) Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU") under the garment manufacturing segment. The recoverable amount of a CGU is determined based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering the financial year 2010. Cash flows from 2011 onwards are projected based on year 2010 financial budgets with no growth for nine years thereafter. In 2008, pre-tax cash flow projections were based on financial budgets for the financial year 2009, with cash flows from 2010 onwards projected based on estimated growth rates of 3% for 2010, 5% for 2011 and 0% for the seven years thereafter. The forecast profitability is based on past performance and expectation for market development. Future cash flows are discounted at 10% per annum (2008: 15% per annum). The discount rate used is pre-tax and reflects specific risks relating to the CGU. As at 31 December 2009, no impairment of goodwill was considered as necessary (2008: Nil).

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

(c) Impairment on intangible assets – license rights

Due to the expectation of operating losses of a license business, a provision for impairment on license rights of HK$11,085,000 was made in the consolidated income statement for the year ended 31 December 2009 (2008: Nil).

21. OTHER LONG-TERM ASSETS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Long-term rental deposits	**9,839**	9,442	**–**	–
Deposits with a financial institution *(Note)*	**7,415**	8,985	**7,415**	8,985
Club debentures	**1,200**	1,200	**–**	–
	18,454	19,627	**7,415**	8,985

Note:

Deposits with a financial institution are denominated in Hong Kong dollars with an effective interest rate of 5.3% per annum (2008: 4.8% per annum).

22. INVESTMENTS IN ASSOCIATES

	Group	
	2009	2008
	HK$'000	*HK$'000*
As at 1 January	**4,991**	–
Acquisition of a subsidiary	**–**	10,726
Share of losses	**(1,472)**	(2,696)
Cancellation of a dividend previously proposed	**–**	1,025
Impairment	**(3,519)**	(2,775)
Exchange differences	**–**	(1,289)
As at 31 December	**–**	4,991

Particulars of the associates, which are unlisted, as at 31 December 2009 are as follows:

Name of associates	Place of incorporation/ establishment	% interest held indirectly
MAC International Sarl	Morocco	50%
Teneco Sarl	Morocco	28.54%

23. INVENTORIES

	Group	
	2009	2008
	HK$'000	*HK$'000*
Raw materials	**170,461**	170,869
Work-in-progress	**82,177**	100,963
Finished goods	**19,332**	71,640
	271,970	343,472

Net write-down of inventories amounting to HK$8,297,000 (2008: HK$20,322,000) was included in cost of sales.

24. ACCOUNTS RECEIVABLE AND BILLS RECEIVABLE

The aging analysis is as follows:

	Group	
	2009	2008
	HK$'000	*HK$'000*
Less than 3 months	**292,172**	380,352
3 months to 6 months	**1,155**	4,522
Over 6 months	**4,427**	3,954
	297,754	388,828
Less: Provision for impairment	**(4,427)**	(3,954)
	293,327	384,874

Majority of trade receivables are with customers having an appropriate credit history. The Group grants its customers credit terms ranging from 30 to 45 days. Most of the trade receivables are on open account which are substantially covered by credit insurance.

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

As at 31 December 2009, accounts receivable and bills receivable of HK$74,229,000 (2008: HK$119,914,000) were past due but considered not to be impaired. These relate to a number of customers for whom there is no history of default. The aging analysis of these receivables based on invoice date is as follows:

	2009	2008
	HK$'000	*HK$'000*
Less than 3 months	**73,074**	115,392
3 months to 6 months	**1,155**	4,522
	74,229	119,914

As at 31 December 2009, accounts receivable and bills receivable over 6 months of HK$4,427,000 (2008: HK$3,954,000) were considered impaired and had been fully provided for.

The risk of accounts receivable and bills receivable that are neither past due nor impaired as at 31 December 2009 becoming impaired is low as most of the balances related to customers with no history of default.

24. ACCOUNTS RECEIVABLE AND BILLS RECEIVABLE (Continued)

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

	2009 HK$'000	2008 HK$'000
At 1 January	**3,954**	2,616
Provision for impairment	**4,213**	1,442
Receivables written off during the year as uncollectible	**(3,740)**	(104)
At 31 December	**4,427**	3,954

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

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

	2009 HK$'000	2008 HK$'000
United States dollars	**227,259**	316,321
Pound Sterling	**41,473**	43,836
Renminbi	**22,012**	21,912
Hong Kong dollars	**2,483**	2,321
Others	**100**	484
	293,327	384,874

25. FORWARD FOREIGN EXCHANGE CONTRACTS

	Group	
	2009 HK$'000	2008 HK$'000
Included in current assets – cash flow hedges *(Note (i))*	**1,639**	22,048
– net investment hedge *(Note (ii))*	**–**	23,573
	1,639	45,621
Included in current liabilities – cash flow hedge *(Note (i))*	**(6,396)**	–
– net investment hedge *(Note (ii))*	**(3,688)**	–
	(10,084)	–

The maximum exposure to credit risk is the fair value (as stated above) of the forward foreign exchange contracts under current assets in the consolidated statement of financial position. The maturity dates of the outstanding forward foreign exchange contracts are within one year and are classified as current assets and liabilities.

25. FORWARD FOREIGN EXCHANGE CONTRACTS (Continued)

Notes:

(i) Forward foreign exchange contracts – cash flow hedges

As at 31 December 2009, the notional principal amount of the outstanding forward foreign exchange contracts under cash flow hedges was HK$149,434,000 (2008: HK$263,263,000). The hedges related to highly probable forecasted sales and purchases denominated in foreign currencies which are expected to occur at various dates within a 12-month period. Gains and losses of forward foreign exchange contracts recorded in the hedging reserve in consolidated statement of comprehensive income at 31 December 2009 are to be recognised in the consolidated income statement when the underlying hedged transactions affect the consolidated income statement.

In relation to the forward foreign exchange contracts under cash flow hedges as at 31 December 2009, a loss of HK$6,672,000 (2008: gain of HK$6,646,000) was recognised within sales of goods and a gain of HK$531,000 (2008: HK$1,194,000) was included under general and administrative expenses.

(ii) Forward foreign exchange contracts – net investment hedge

As at 31 December 2009, the notional principal amounts of the outstanding forward foreign exchange contracts under net investment hedge was HK$28,844,000 (2008: HK$67,186,000). Gains and losses of forward foreign exchange contracts recorded in the translation reserve in consolidated statement of comprehensive income as at 31 December 2009 are to be recognised in the consolidated income statement when the foreign operation is disposed.

In relation to the net investment hedge, a gain of HK$763,000 (2008: HK$1,113,000) in respect of the ineffective portion of the net investment hedge and a loss arising from the change in fair value of the portion of derivative forward instrument not qualified as net investment hedge of HK$277,000 (2008: gain of HK$2,792,000) are included in other gains.

26. PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Tax reserve certificates	**35,911**	30,834	**–**	–
Deposits for acquisition of an office building *(Note (ii))*	**56,799**	–	**–**	–
Advance payments for purchases of inventories	**13,027**	11,697	**–**	–
Rental deposits	**5,621**	5,888	**–**	37
Value added tax and custom duties recoverable	**2,230**	6,711	**–**	–
Income tax recoverable	**1,556**	3,498	**–**	–
Prepaid operating expenses	**8,610**	8,512	**155**	115
Others	**6,478**	6,305	**1,055**	1,391
	130,232	73,445	**1,210**	1,543

Notes:

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

(ii) On 21 December 2009, Shanghai Tristate Enterprises Co., Ltd. ("Shanghai Tristate"), a wholly-owned subsidiary of the Company, successfully bid for the acquisition of a commercial property in Shanghai, the PRC at an auction at a consideration of HK$119,414,000 (equivalent to RMB105,127,000). Shanghai Tristate also entered into a sale and purchase agreement with the vendor of the property on 24 December 2009. Pursuant to the bidding agreement and the sale and purchase agreement, performance deposits and auctioneer's commission totalling HK$56,799,000 (equivalent to RMB50,000,000) have been paid by Shanghai Tristate before the year end of 31 December 2009. The acquisition was completed subsequent to the year end and Shanghai Tristate obtained the Shanghai Certificate of Real Estate Ownership on 22 March 2010.

27. CASH AND BANK BALANCES

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Short-term bank deposits	**187,869**	142,452	**4,310**	3,505
Cash at bank and on hand	**194,628**	142,399	**3,702**	1,643
Cash and cash equivalents	**382,497**	284,851	**8,012**	5,148
Pledged bank deposits	**18,906**	15,498	**–**	–
Total cash and bank balances	**401,403**	300,349	**8,012**	5,148

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

The effective interest rate on short-term bank deposits was 1.6% per annum (2008: 1.6% per annum). The effective interest rate on cash at bank was 0.2% per annum (2008: 0.2% per annum). The short-term bank deposits have maturities ranging from one day to three months at inception.

As at 31 December 2009, short-term bank deposits amounted to HK$18,906,000 (2008: HK$15,498,000) were pledged as collateral for certain foreign currency exchange contract facilities granted to the Group.

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

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Renminbi	**152,895**	154,040	**–**	–
United States dollars	**210,307**	104,520	**6,725**	3,573
Hong Kong dollars	**16,661**	11,521	**1,278**	1,569
Pound Sterling	**6,831**	13,667	**–**	–
Others	**14,709**	16,601	**9**	6
Total	**401,403**	300,349	**8,012**	5,148

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

28. ACCOUNTS PAYABLE AND BILLS PAYABLE

	Group	
	2009	2008
	HK$'000	*HK$'000*
Third parties	**164,426**	180,828
Associates	**769**	4,441
	165,195	185,269

The aging analysis of accounts payable and bills payable based on invoice date is as follows:

Less than 3 months	**155,841**	171,284
3 months to 6 months	**4,157**	10,418
Over 6 months	**5,197**	3,567
	165,195	185,269

Majority of payment terms with suppliers are within 60 days.

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

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

	2009	2008
	HK$'000	*HK$'000*
United States dollars	**101,444**	123,218
Hong Kong dollars	**29,917**	38,812
Renminbi	**21,409**	7,389
Others	**12,425**	15,850
	165,195	185,269

29. ACCRUALS AND OTHER PAYABLES

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

30. BANK BORROWINGS

As at 31 December 2009, the Group's bank borrowings were unsecured, of which approximately HK$170,343,000 (2008: HK$184,184,000) were covered by corporate guarantees given by the Company. The bank borrowings were due for repayment within three months. As at 31 December 2009, bank borrowings of HK$134,401,000 (2008: HK$119,320,000) and HK$35,942,000 (2008: HK$91,522,000) bore interest at fixed rates and floating rates respectively. The interest rates of the bank borrowings ranged from 0.6% to 4.5% per annum (2008: 0.6% to 5.3% per annum).

30. BANK BORROWINGS (Continued)

Bank borrowings are denominated in the following currencies:

	Group	
	2009	2008
	HK$'000	*HK$'000*
United States dollars	**92,658**	91,522
Hong Kong dollars	**59,527**	80,000
Thai Bahts	**16,302**	39,320
Euro	**1,856**	–
	170,343	210,842

The fair value of the Group's bank borrowings equal their carrying amount, as the impact of discounting is not significant.

31. RETIREMENT BENEFITS AND OTHER POST RETIREMENT OBLIGATIONS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Defined contribution plans *(Note (a))*	**681**	1,422	**–**	–
Defined benefit plans *(Note (b))*	**(3,158)**	12,158	**–**	–
Long service payment liabilities *(Note (c))*	**5,233**	7,774	**–**	–
Other retirement benefits	**8,238**	12,340	**8,238**	12,340
	10,994	33,694	**8,238**	12,340
Included in non-current assets	**(4,211)**	–	**–**	–
Included in non-current liabilities	**15,205**	33,694	**8,238**	12,340
	10,994	33,694	**8,238**	12,340

Notes:

(a) **Defined contribution plans**

During the year ended 31 December 2009, forfeited contributions of HK$889,000 (2008: HK$275,000) were utilised, and HK$289,000 (2008: HK$814,000) outstanding as at 31 December 2009 could be utilised to reduce future contributions.

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

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

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

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

Notes (Continued):

(a) Defined contribution plans (Continued)

(iii) The Group's subsidiaries in the Mainland China contribute 10% to 20% of the basic salaries of their employees to retirement schemes operated by municipal governments. Under the schemes, the employees also contribute 5% to 8% of their basic salaries.

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

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

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

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

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

(b) Defined benefit plans

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

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

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

The latest actuarial valuations of the above plans were performed by HSBC Life (International) Limited, a professionally qualified independent actuarial firm, as at 31 December 2009 using the "projected unit credit" method. Based on the actuarial reports, the aggregate market value of the plan assets as at 31 December 2009 was HK$23,182,000, representing approximately 188% of the actuarial accrued liabilities at that date.

The amounts recognised in the consolidated statement of financial position are as follows:

	2009 *HK$'000*	2008 *HK$'000*
Present value of funded obligations	**12,312**	24,556
Fair value of plan assets	**(23,182)**	(30,002)
	(10,870)	(5,446)
Unrecognised actuarial gain	**7,712**	17,604
Net (assets)/liabilities	**(3,158)**	12,158
Represented by:		
Net assets	**(4,211)**	–
Net liabilities	**1,053**	12,158
	(3,158)	12,158

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

Notes (Continued):

(b) Defined benefit plans (Continued)

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

	2009 HK$'000	2008 HK$'000
Current service cost	840	1,698
Interest cost	432	978
Expected return on plan assets	(841)	(1,667)
Net actuarial gain recognised	(819)	(1,510)
Net gains on curtailments and settlements	(15,266)	–
Total, included in employment expenses	(15,654)	(501)
Amount included in restructuring cost *(Note 6)*	(15,266)	–
Amount included in general and administration expenses	(388)	(501)
	(15,654)	(501)
Actual return on plan assets	860	1,345

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

	2009 HK$'000	2008 HK$'000
As at 1 January	24,556	29,264
Current service cost	840	1,698
Interest cost	432	978
Actuarial loss/(gain)	30	(2,396)
Curtailment gain, net	(5,863)	–
Exchange differences	540	(1,566)
Benefits paid by employer	(383)	–
Benefits paid from the plan	(3,798)	(3,422)
Liabilities extinguished on curtailment	(4,042)	–
As at 31 December	12,312	24,556
Experience adjustments on plan liabilities	(1,689)	(2,810)

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

	2009 HK$'000	2008 HK$'000
As at 1 January	30,002	33,738
Expected return on plan assets	841	1,667
Actuarial gain/(loss)	19	(322)
Contributions by employer	320	596
Exchange differences	887	(2,255)
Benefits paid from the plan	(3,798)	(3,422)
Refund to employer	(5,089)	–
As at 31 December	23,182	30,002
Experience adjustments on plan assets	860	(322)

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

Notes (Continued):

(b) Defined benefit plans (Continued)

The principal actuarial assumptions used are as follows:

	2009	2008
Discount rate	**2% to 9%**	2% to 8%
Expected rate of return on plan assets	**3% to 6%**	3% to 6%
Expected rate of future salary increase	**2% to 7%**	2% to 7%

The Group expects to contribute HK$282,000 to its defined benefit plans in the year ending 31 December 2010 (2009: HK$572,000).

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

	2009	2008
Deposits with financial institutions	**51.7%**	48.2%
Bonds	**13.0%**	18.0%
Stocks	**11.8%**	15.0%
Other assets	**23.5%**	18.8%

(c) Long service payment liabilities

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

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

(iii) Under the labour law of Vietnam, the Group is obliged to make severance pay on cessation of employment to the employees who have been employed by the Group for more than 12 months. The service period for the calculation of severance pay was up to 31 December 2008. The amount payable is dependent on the employee's average salary for the six months prior to the termination and years of service. The Group does not set aside any asset for the benefit obligation arising from severance pay.

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

Notes (Continued):

(c) Long service payment liabilities (Continued)

The latest actuarial valuations of the Group's obligations of long service payment liabilities as at 31 December 2009 were carried out by a professionally qualified independent actuarial firm, HSBC Life (International) Limited, using the "projected unit credit" method.

	2009 HK$'000	2008 HK$'000
Present value of unfunded obligations	9,172	12,014
Unrecognised actuarial loss	(3,939)	(4,240)
Liability in the statement of financial position	5,233	7,774
Current services cost	561	1,968
Interest cost	390	677
Net losses on curtailments and settlements	13,743	–
Actuarial loss recognised	265	243
Total, included in employment expenses	14,959	2,888
Amount included in restructuring cost *(Note 6)*	13,743	–
Amount included in general and administration expenses	1,216	2,888
	14,959	2,888

Movement in the present value of unfunded obligations:

	2009 HK$'000	2008 HK$'000
As at 1 January	12,014	11,476
Current service cost	561	1,968
Interest cost	390	677
Benefit paid	(17,708)	(3,414)
Curtailment losses	12,421	–
Actuarial loss	1,110	1,734
Exchange differences	384	(427)
As at 31 December	9,172	12,014
Experience adjustments on unfunded obligations	2,254	112

The principal actuarial assumptions used are as follows:

	2009	2008
Discount rate	2% to 12%	1% to 10%
Expected rate of future salary increase	1% to 7%	1% to 7%

32. LICENSE FEES PAYABLE

	Group	
	2009	2008
	HK$'000	*HK$'000*
Within one year	**16,640**	12,139
In the second year	**24,305**	18,245
In the third to fifth year	**101,990**	126,175
	142,935	156,559
Less: Imputed interest on license fees payable	**(14,987)**	(20,173)
Present value	**127,948**	136,386
Less: Current portion included in accruals and other payables	**(16,640)**	(12,139)
Non-current portion	**111,308**	124,247
Estimated fair value of:		
Current portion	**16,640**	12,139
Non-current portion	**116,480**	130,945

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

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

	2009	2008
	HK$'000	*HK$'000*
United States dollars	**110,798**	118,819
Euro	**17,150**	17,567
	127,948	136,386

The estimated fair value as at 31 December 2009 was calculated based on discount rates of 1.9% to 2.1% (2008: 2.0% to 3.5%) per annum, which were determined by reference to the external borrowing rate to the Group.

33. DEFERRED INCOME TAX ASSETS/LIABILITIES

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

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deferred income tax assets to be recovered:				
– After 12 months	**8,035**	4,767	**113**	286
– Within 12 months	**1,036**	1,909	**–**	–
	9,071	6,676	**113**	286
Deferred income tax liabilities to be realised:				
– After 12 months	**(66,376)**	(80,645)	**–**	–
– Within 12 months	**(2,669)**	(2,984)	**–**	–
	(69,045)	(83,629)	**–**	–
Net deferred income tax (liabilities)/ assets	**(59,974)**	(76,953)	**113**	286

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

Deferred income tax liabilities

	Accelerated tax depreciation		Withholding tax for distribution of overseas retained earnings of subsidiaries		Revaluation of freehold land and buildings		Hedging		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
As at 1 January	**3,898**	5,363	**45,703**	61,795	**39,666**	43,992	**469**	–	**89,736**	111,150
Exchange differences	**–**	–	**–**	–	**1,797**	(1,538)	**–**	–	**1,797**	(1,538)
Recognised in the consolidated income statement	**810**	(1,465)	**(11,405)**	(16,092)	**(2,679)**	(2,784)	**(269)**	–	**(13,543)**	(20,341)
(Credited)/charged to other comprehensive income	**–**	–	**–**	–	**(520)**	(4)	**(197)**	469	**(717)**	465
As at 31 December	**4,708**	3,898	**34,298**	45,703	**38,264**	39,666	**3**	469	**77,273**	89,736

33. DEFERRED INCOME TAX ASSETS/LIABILITIES (Continued)

Deferred income tax assets

	Provisions		Decelerated tax depreciation		Tax losses		Total	
	2009 **HK$'000**	2008 *HK$'000*	**2009** **HK$'000**	2008 *HK$'000*	**2009** **HK$'000**	2008 *HK$'000*	**2009** **HK$'000**	2008 *HK$'000*
As at 1 January	**7,484**	5,989	**5,299**	4,454	**–**	8,007	**12,783**	18,450
Exchange differences	**179**	(190)	**5**	(10)	**85**	(320)	**269**	(520)
Recognised in the consolidated income statement	**1,217**	1,685	**479**	855	**2,551**	(7,687)	**4,247**	(5,147)
As at 31 December	**8,880**	7,484	**5,783**	5,299	**2,636**	–	**17,299**	12,783

Deferred income tax assets are recognised for tax loss carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2009, the Group did not recognise deferred income tax assets of HK$18,931,000 (2008: HK$24,114,000) for tax losses that can be carried forward against future taxable income. Cumulative tax losses of HK$90,985,000 (2008: HK$92,868,000) can be carried forward indefinitely; cumulative tax losses of HK$1,072,000 (2008: HK$12,712,000) will expire (if not utilised) within the next five years; and cumulative tax losses of HK$14,578,000 (2008: HK$17,367,000) will expire (if not utilised) from the sixth to tenth years.

34. OTHER LONG-TERM LIABILITIES

	Group	
	2009 **HK$'000**	2008 *HK$'000*
Within one year	**4,363**	3,470
In the second year	**4,488**	3,635
In the third to fifth year	**1,154**	4,010
	10,005	11,115
Less: Imputed interest on other long-term liabilities	**(588)**	(1,056)
Present value	**9,417**	10,059
Less: Current portion included in accruals and other payables	**(4,363)**	(3,470)
Non-current portion	**5,054**	6,589
Estimated fair value of:		
Current portion	**4,363**	3,470
Non-current portion	**5,377**	6,926

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

34. OTHER LONG-TERM LIABILITIES (Continued)

The estimated fair value as at 31 December 2009 was calculated based on a discount rate of 2.2% (2008: 3.0%) per annum, which was determined by reference to the external borrowing rate to the Group.

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

35. SHARE CAPITAL

	2009	2008
	HK$'000	*HK$'000*
Authorised:		
500,000,000 (2008: 500,000,000) shares of HK$0.10 each	**50,000**	50,000
Issued and fully paid:		
268,735,253 (2008: 268,735,253) shares of HK$0.10 each	**26,874**	26,874

36. RESERVES

Group

	Share premium	Capital reserve	Statutory reserves	Assets revaluation reserve	Translation reserve	Share option reserve	Hedging reserve	Contributed surplus	General reserve	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2009	8,124	126,598	65,198	69,848	(81,480)	356	13,739	265,630	117,413	438,300	1,023,726
Comprehensive income											
Loss for the year	–	–	–	–	–	–	–	–	–	(103,862)	(103,862)
Other comprehensive income											
Fair value loss on net investment hedge	–	–	–	–	(1,634)	–	–	–	–	–	(1,634)
Net fair value losses on cash flow hedges	–	–	–	–	–	–	(12,824)	–	–	–	(12,824)
Realisation of accumulated translation reserve *(Note 6)*	–	–	–	–	133,589	–	–	–	–	–	133,589
Reduction of assets revaluation reserves upon impairment of assets	–	–	–	(1,572)	–	–	–	–	–	–	(1,572)
Deferred income tax credited to the consolidated income statement	–	–	–	–	–	–	269	–	–	–	269
Deferred income tax credited to other comprehensive income *(Note 33)*	–	–	–	520	–	–	197	–	–	–	717
Currency translation differences	–	–	–	–	4,320	–	–	–	–	–	4,320
Total comprehensive income	–	–	–	(1,052)	136,275	–	(12,358)	–	–	(103,862)	19,003
Transactions with owners											
Transfer	–	(14,210)	2,732	–	–	(94)	–	–	–	11,572	–
Realised upon disposal of a building	–	–	–	(76)	–	–	–	–	–	76	–
Share option scheme											
– value of employee services	–	–	–	–	–	509	–	–	–	–	509
Dividends paid to equity holders of the Company	–	–	–	–	–	–	–	–	–	(24,186)	(24,186)
Total transactions with owners	–	(14,210)	2,732	(76)	–	415	–	–	–	(12,538)	(23,677)
As at 31 December 2009	8,124	112,388	67,930	68,720	54,795	771	1,381	265,630	117,413	321,900	1,019,052
Representing:											
Proposed dividend										26,874	
Others										295,026	
										321,900	

36. RESERVES (Continued)

Group (Continued)

	Share premium HK$'000	Capital reserve HK$'000	Statutory reserves HK$'000	Assets revaluation reserve HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Hedging reserve HK$'000	Contributed surplus HK$'000	General reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 January 2008	8,124	126,598	62,538	69,860	(80,849)	–	–	265,630	117,413	386,799	956,113
Comprehensive income											
Profit for the year	–	–	–	–	–	–	–	–	–	102,517	102,517
Other comprehensive income											
Fair value gain on net investment hedge	–	–	–	–	19,668	–	–	–	–	–	19,668
Fair value gains on cash flow hedges	–	–	–	–	–	–	14,208	–	–	–	14,208
Deferred income tax credited/ (charged) to other comprehensive income *(Note 33)*	–	–	–	4	–	–	(469)	–	–	–	(465)
Currency translation differences	–	–	–	–	(20,299)	–	–	–	–	–	(20,299)
Total comprehensive income	–	–	–	4	(631)	–	13,739	–	–	102,517	115,629
Transactions with owners											
Transfer	–	–	2,660	–	–	–	–	–	–	(2,660)	–
Realised upon disposal of a building	–	–	–	(16)	–	–	–	–	–	16	–
Share option scheme – value of employee services	–	–	–	–	–	356	–	–	–	–	356
Dividends paid to equity holders of the Company	–	–	–	–	–	–	–	–	–	(48,372)	(48,372)
Total transactions with owners	–	–	2,660	(16)	–	356	–	–	–	(51,016)	(48,016)
As at 31 December 2008	8,124	126,598	65,198	69,848	(81,480)	356	13,739	265,630	117,413	438,300	1,023,726
Representing:											
Proposed dividend										24,186	
Others										414,114	
										438,300	

36. RESERVES (Continued)

Company

	Share premium HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	General reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 January 2009	8,124	356	321,020	110,000	164,166	603,666
Comprehensive income						
Profit for the year	–	–	–	–	26,606	26,606
Total comprehensive income	–	–	–	–	26,606	26,606
Transactions with owners						
Share options granted to employees lapsed	–	(94)	–	–	20	(74)
Share option scheme – value of employee services	–	509	–	–	–	509
Dividends paid to equity holders of the Company	–	–	–	–	(24,186)	(24,186)
Total transactions with owners	–	415	–	–	(24,166)	(23,751)
As at 31 December 2009	8,124	771	321,020	110,000	166,606	606,521
Representing:						
Proposed dividend					26,874	
Others					139,732	
					166,606	

	Share premium HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	General reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 January 2008	8,124	–	321,020	110,000	117,596	556,740
Comprehensive income						
Profit for the year	–	–	–	–	94,942	94,942
Total comprehensive income	–	–	–	–	94,942	94,942
Transactions with owners						
Share option scheme – value of employee services	–	356	–	–	–	356
Dividends paid to equity holders of the Company	–	–	–	–	(48,372)	(48,372)
Total transactions with owners	–	356	–	–	(48,372)	(48,016)
As at 31 December 2008	8,124	356	321,020	110,000	164,166	603,666
Representing:						
Proposed dividend					24,186	
Others					139,980	
					164,166	

36. RESERVES (Continued)

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

(b) Subsidiaries incorporated in Taiwan are required to set aside 10% of their net profit each year to reserve, according to Company Law in Taiwan. This appropriation is made in the following year until the accumulated reserve equals the paid-in capital. Such reserve can be used to offset a deficit or, when it has reached 50% of the paid-in capital, up to 50% thereof may be transferred to capital. The amount set aside is included under statutory reserve. Subsidiaries in Taiwan did not transfer any amount to the statutory reserve during the year ended 31 December 2009 (2008: Nil).

(c) The laws and regulations in the Mainland China require wholly foreign owned enterprises established in the Mainland China to provide for statutory reserves which are appropriated from net profit, based on profit reported in the statutory accounts. Certain subsidiaries in the Mainland China are required to allocate at least 10% of their after-tax profit to statutory reserves until the reserves have reached 50% of their registered capital. Statutory reserves can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. During the year ended 31 December 2009, subsidiaries in the Mainland China have transferred HK$2,732,000 (2008: HK$2,660,000) to statutory reserves.

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

37. SHARE OPTION SCHEME

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

37. SHARE OPTION SCHEME (Continued)

Details of the share options granted pursuant to the 2007 Share Option Scheme and the share options outstanding at 31 December 2009 are as follows:

	2009		2008	
	Average exercise price per share ***HK$***	**Number of options**	Average exercise price per share *HK$*	Number of options
As at 1 January	**1.86**	**1,788,000**	–	–
Granted	**1.45**	**1,676,000**	1.86	1,788,000
Exercised	**–**	**–**	–	–
Lapsed	**1.86**	**(472,000)**	–	–
As at 31 December	**1.63**	**2,992,000**	1.86	1,788,000
Exercisable at 31 December	**1.70**	**1,077,000**	1.86	447,000

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

Vesting date	**Expiry date**	**Number of options vesting on each vesting date** *(Note)*	**Number of options** **2009**	2008
2 July 2008, 2009, 2010 and 2011 respectively	1 July 2013	329,000	**1,316,000**	1,788,000
14 September 2009, 2010, 2011 and 2012 respectively	13 September 2014	419,000	**1,676,000**	–
			2,992,000	1,788,000

Note: Excluded those options already lapsed as at 31 December 2009.

The fair value of options granted during the year of 2009 determined using the Trinomial valuation model was HK$0.53 per option (2008: HK$0.41 per option). The significant inputs into the model are as follows:

	Year in which share options granted **2009**	2008
Share price at the grant date	**HK$1.45**	HK$1.80
Exercise price	**HK$1.45**	HK$1.86
Dividend yield	**9%**	11.1%
Volatility	**71.5%**	48.7%
Annual risk-free interest rate	**1.7%**	3.3%

37. SHARE OPTION SCHEME (Continued)

The volatility at the grant date, which measured the standard deviation of expected share price returns, is based on statistics of daily volatility of comparable companies within the industry over the past two years.

The aggregate fair value of the above options granted amounted to HK$884,000 (2008: HK$724,000) are to be recognised as employee expense over the vesting periods together with a corresponding increase in equity. The amount recognised in the consolidated income statement for the year ended 31 December 2009 amounted to HK$509,000 (2008: HK$356,000).

38. COMMITMENTS

(a) Operating lease commitments

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

	Group	
	2009	2008
	HK$'000	*HK$'000*
Not later than 1 year	**42,657**	43,614
Later than 1 year and not later than 5 years	**30,564**	41,534
Later than 5 years	**11,960**	12,753
	85,181	97,901

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

	Group	
	2009	2008
	HK$'000	*HK$'000*
Not later than 1 year	**174**	656
Later than 1 year and not later than 5 years	**48**	61
	222	717

(b) Capital commitments

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

	Group	
	2009	2008
	HK$'000	*HK$'000*
Contracted but not provided for	**83,730**	38,422
Authorised but not contracted for	**26,519**	62,855
	110,249	101,277

39. RELATED PARTY TRANSACTIONS

The Group is controlled by Silver Tree Holdings Inc., which owns approximately 66.40% of the Company's issued shares as at 31 December 2009.

(a) Transactions with related parties

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

		Group	
	Note	**2009** **HK$'000**	2008 HK$'000
Associates			
Processing charges	(i)	**12,415**	42,885
A related company			
Rental expense	(ii)	**4,457**	4,457

Notes:

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

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

(b) Transactions with subsidiaries

	Company	
	2009 **HK$'000**	2008 HK$'000
Transactions with subsidiaries		
Service fee charged to subsidiaries	**36,141**	46,220
Service fee charged by a subsidiary	**1,896**	2,239

(c) Key management compensation

	Group	
	2009 **HK$'000**	2008 HK$'000
Salaries, allowances and bonuses	**17,430**	17,932
Defined contribution plans	**363**	472
Other retirement benefits	**–**	443
Share-based compensation expense – share options granted	**116**	124
	17,909	18,971

40. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2009 **HK$'000**	2008 HK$'000
(Loss)/profit before income tax	**(97,189)**	109,700
Adjustments for:		
Depreciation on property, plant and equipment	**61,974**	57,331
Provision for impairment of property, plant and equipment	**13,795**	4,025
Depreciation on investment properties	**28**	35
Amortisation of leasehold land and land use rights	**1,033**	856
Impairment of leasehold land and land use rights	**238**	–
Amortisation of license rights	**9,783**	5,478
Impairment of license rights	**11,085**	–
Net (gain)/loss on disposals of property, plant and equipment and leasehold land	**(3,786)**	2,273
Net gain on disposals of investment properties	**–**	(17,567)
Realisation of accumulated translation reserve	**133,589**	–
Provision for impairment in an associate	**3,519**	2,775
Net loss/(gain) on forward foreign exchange contracts	**5,655**	(11,745)
Share of losses of associates	**1,472**	2,696
Net write-down of inventories to net relisable value	**8,297**	20,322
Share-based compensation expense – share options granted	**509**	356
Provision for impairment of receivables	**4,213**	1,442
Finance income	**(4,302)**	(8,008)
Finance costs	**9,062**	12,394
Effect of foreign exchange rate changes	**(5,355)**	(13,883)
	153,620	168,480
Changes in working capital		
Decrease in inventories	**63,205**	69,303
Decrease in accounts receivable and bills receivable	**95,174**	32,781
(Increase)/decrease in prepayments and other receivables	**(51,736)**	42,139
Decrease in accounts payable and bills payable	**(20,074)**	(45,869)
Increase/(decrease) in accruals and other payables	**48,806**	(22,978)
Decrease in retirement benefits and other post retirement obligations	**(22,700)**	(1,733)
Cash generated from operations	**266,295**	242,123

40. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

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

	2009	2008
	HK$'000	*HK$'000*
Net book amount	**11,303**	4,565
Net gain/(loss) on disposals	**3,786**	(2,273)
Proceeds from disposals	**15,089**	2,292

41. ULTIMATE HOLDING COMPANY

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