High Fashion International Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 608)

Annual Report

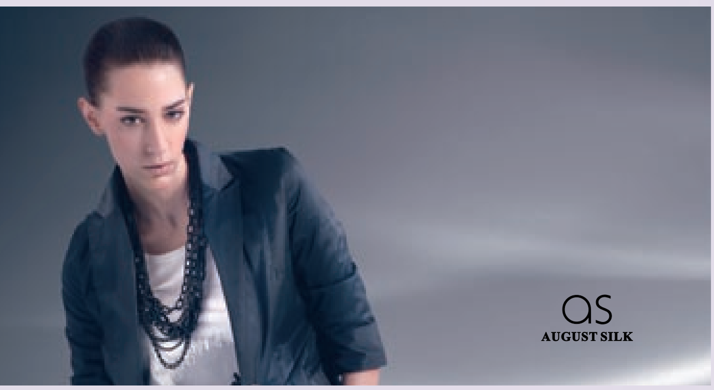
2009

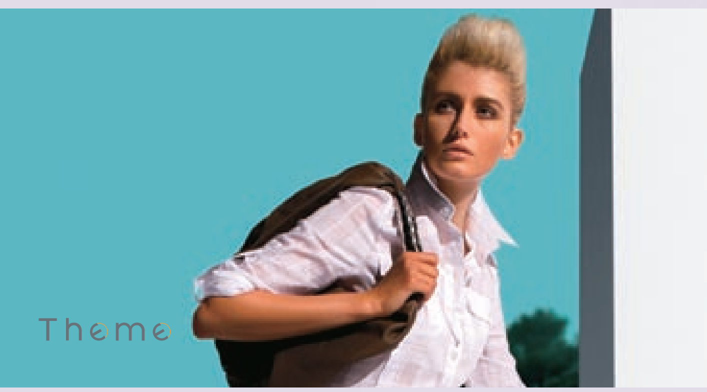
Mission Statement

No.1
Silk Enterprise
in the World

Contents

Chairman's Statement





The net profit attributable to shareholders of the Company for the year ended 31 December 2009 was HK$166 million. The Board of Directors recommended the payment of a final dividend of 5 HK cents per share and a special dividend of 8 HK cents per share. When taking into account of the interim dividend of 3 HK cents per share paid in October 2009, the total dividend payment for the year will amount to 16 HK cents per share. The Company's net assets value per share at the year-end was HK$5.3.

Chairman's Statement

The global economy in 2009 has stabilized and improved with the result that individual regions present different opportunities and directions. China's economy, being the main driver for both the regional and global recovery, has achieved great resilience thereby presenting good growth opportunities for sustainable economic development. We have proactively prepared ourselves with timely implementation of strategic measures to capture the golden opportunities that emerge in China.

Over the past two years, we spared no efforts to establish a strong team for building its brands in the China market. Leveraging on its long established product and service quality and market competitiveness, we are fully confident to be able to promote and develop its own brand business successfully in the not too distant future. This is in line with our strategy to become the leading enterprise in the silk industry:

- The establishment of a silk brand business, for achieving our mission of being the No. 1 silk enterprise, and fully promoting our own brands including 绸世界 SILK WORLD, 绸故事 SILK LEGEND, and August moon 雅慕;
- The establishment of a fashion brand business, for fully promoting our brands such as as AUGUST SILK, august silk, Theme and Cslr 城市俪人;
- The establishment of a silk fabric business, under the brand name of 達利霞 Highfashion® (a prestigious brand of China-based silk fabric brand business) and together with our constantly strengthened and advanced silk weaving, printing, dyeing, finishing technologies, to develop, design and lead new fashionable fabrics and promote the China market with proactive exploration.

We have achieved encouraging results in the first quarter of 2010. We believe that our brand business would boost the future business of the Group significantly.

The manufacturing exports business will continue to consolidate after the financial tsunami. It is likely to be another difficult year for the developed markets in both the U.S and Europe, and recovery shall remain fragile in the early stage. However, we have confidence in enhancing our partnership relationship with our long term customers through product innovation and comprehensive services to ensure a prosperous future together.

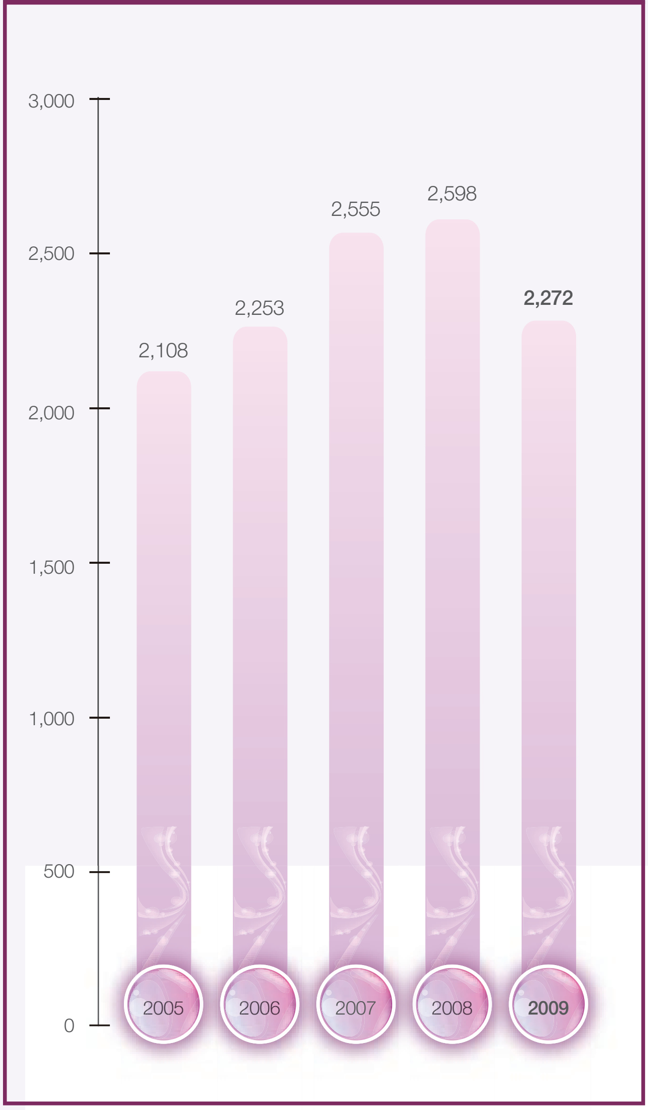
I would like to take this opportunity to express my gratitude to the shareholders, customers, suppliers and my fellow Directors for their support. I would also like to thank our staff from various regions for their dedication and contribution in furthering the mission of the Group.

LAM FOO WAH
Chairman

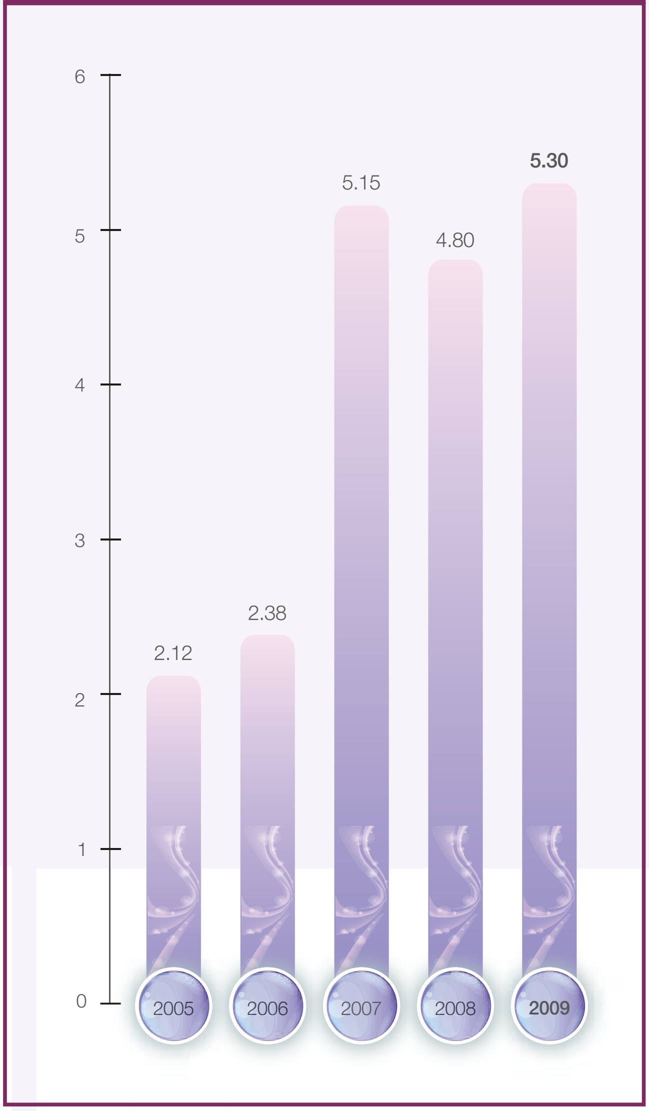
Hong Kong, 16 April 2010

Financial Highlights

Turnover (HK$ Million)



Net Asset Value Per Share (HK$)



High Fashion International Limited AR 2009

AUGUST SILK

Management Discussion and Analysis

RESULTS

Revenue for the year ended 31 December 2009 was HK$2.3 billion. Net profit attributable to shareholders for the year ended 31 December 2009 was HK$166 million, compared with a profit of HK$91 million of last year. There were exceptional gains on disposal of interests in a subsidiary of HK$61 million and on disposal of a piece of land in Hangzhou of HK$45 million in the current year profit. Basic earnings per share were 52 HK cents. Net asset value per share was HK$5.3.

REVIEW OF OPERATIONS

Our devotion to revamp the China Silk Industry was once again reflected in the winning of a wide array of prestigious awards, among which are the "Backbone Enterprise in the Leading Industries of Zhejiang Province" awarded to High Fashion (China) Co., Ltd., and "Advanced Technology Enterprises" to High Fashion (China) Co., Ltd. and High Fashion Silk (Zhejiang) Co., Ltd. To us, these awards signal not only our unique leading position in silk product and technological innovation, but also a recognition of our contribution to the industry which enable us to enjoy a preferential tax incentive. This is the most encouraging news to the Group and with the continuous undoubted support from the government, we are moving solidly towards our goal: World No. 1 Silk Apparel Enterprise.

The segmental information is as follows:

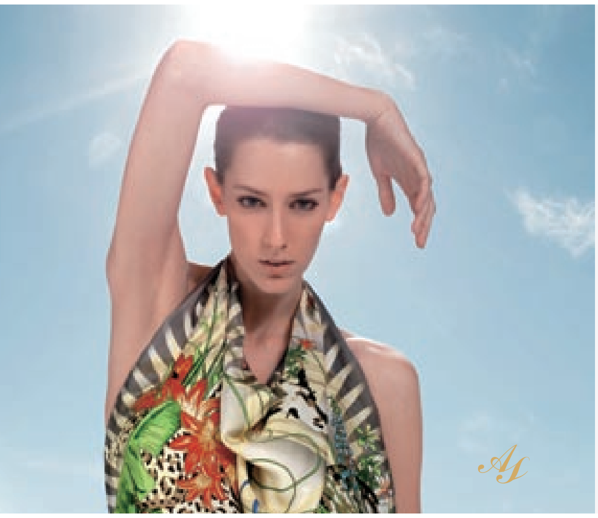
	Revenue		Contribution	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
By principal activity:				
Manufacturing and trading	**1,487,653**	1,738,698	**245,512**	176,585
Own brand business	**783,913**	859,333		
Normal operation			**16,002**	3,912
Exceptional provision			**(23,157)**	(15,294)
	2,271,566	2,598,031	**238,357**	165,203
By geographical segments:				
USA	**1,277,251**	1,501,270	**86,700**	86,948
Europe	**446,099**	442,110	**17,990**	15,770
Greater China	**457,459**	564,277	**127,867**	56,762
Others	**90,757**	90,374	**5,800**	5,723
	2,271,566	2,598,031	**238,357**	165,203

Though the Group recorded a decrease of 14% in manufacturing and trading business resulting from the weak global economy lingering on from 2008, but contribution improved. The United States continued to be the Group's major export market. The brand business of August Silk increased its share of our revenue in the USA in the current year. This operation reported profit for four consecutive years. It was an encouraging sign that shown our efforts and strategies in the USA.

European market, on the contrary, has shown continuous improvement in the current year. This echoed the market diversification as a prudent approach to cushion the impact of global financial tsunami.

In the face of unprecedented challenges and opportunities, the Group has started the year 2010 with a blend of caution and confidence. We have comprehensively formulated our strategic development plans to strengthen our platform for sustainable growth and profitability.

Management Discussion and Analysis



On the manufacturing side, operations in this segment share many common features in technology, manufacturing processes, supply chain management which create opportunities for synergy, for revenue growth by leveraging the strength of the Group's technology innovation and for cost reduction through the sharing of valuable internal resources. Improvement in respective profit margin speaks for all.

From a brand building perspective, 2010 will be a very exciting year. With the Chinese economy enjoying a sustained recovery supported by a promising consumer sentiment, the Group has staged up enormous efforts in building up a multi-brand portfolio as our tangible steps to capture the growing affluence of the PRC consumers. This includes, but not limited to, the silk brand premium items like home furnishing pieces catering for the expanding tourism industry in all major cities in China.

In addition, the robust growth in womenwear apparel market in China has proven to be a solid channel of growth for the Group to pursue aggressively. With our in-depth knowledge about the PRC market, our unique business model of Quality Fast Fashion Brand building on our recognized strengths will definitely place the Group in a very advantageous position to reap the long term benefit in this important market.

In 2010, to expand our brand portfolio is our corporate commitment. We believe we have the right strategy for sustainable growth and we set our pace entering 2010 with real resilience and momentum.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's total outstanding bank borrowings were decreased to HK$990 million at the end of reporting period compared to HK$1,185 million as at 31 December 2008. Our gearing ratio of non-current liabilities to shareholders' funds was only 10% at the end of reporting period. Current ratio has been maintained at a healthy level of 1.4.

The Group's total cash and bank balances were HK$1,034 million at the end of reporting period compared to HK$1,004 million as at 31 December 2008. Based on the net cash position and the ample banking facilities available, the Group had a very strong working capital and liquidity to meet its operating needs and future growth.

The Group's receivables were mainly denominated in US dollar. Bank borrowings were denominated in US dollar, Hong Kong dollar and Renminbi. Since the Hong Kong dollar is pegged to the US dollar, the Group considers that its foreign exchange risk is minimal. The Group has taken conservative approach to handle foreign currency risk with adequate hedging reserve. The Group had no borrowings at fixed interest rates during the year.

The Group has no material contingent liabilities. Barring the pledge of trade receivables and bills receivables of certain subsidiaries of HK$91 million, there were no charges on the Group's assets.

TAX AUDIT

The Inland Revenue Department (IRD) initiated a tax audit on certain group companies in February 2006 for the years of assessment from 1999/2000 onwards. The management is of the opinion that, in all the years, adequate Hong Kong tax provisions were made on the Hong Kong sourced income. Since the tax audit is still at a fact-finding stage, the outcome of the tax audit cannot be readily ascertained. After consulting with professional advisers, the management is of the opinion that the existing provisions are adequate.

HUMAN RESOURCES

The total number of employees of the Group including jointly-controlled entities as at the end of the reporting period was about 12,000. Other than the competitive remuneration package offered to the employees, share options may also be granted to selected employees based on the Group's performance. No share options were granted to employees during the year.

CAPITAL EXPENDITURE

The Group purchased the plant and equipment and the leasehold improvement and construction in progress of around HK$112 million in order to upgrade its manufacturing capabilities during the year. Except for the above, there was no material capital expenditure during the year.

High Fashion Womenwear Institute, a school-enterprise integrator under the idea of school-enterprise integration

The school-enterprise integrator under the idea of school-enterprise integration tightly bundles the development of the enterprise and the school and the career planning of the students, and the enterprise and the school jointly make planning, build organizations, conduct construction and management, achieve results and assume risks, which has energized the professional modernization construction with strong support and guarantee.

High Fashion Womenwear Institute, a school-enterprise integrator jointly set up by Hangzhou Vocational & Technical College and High Fashion Group, led by the High Fashion enterprise and on the basis of the competence standards of womenwear production technology positions, re-clarifies the professional positioning, re-builds the course system, implements curriculum teaching, establishes a “dual teacher “ structural teaching team and constructs a teaching and training site etc. to let the learned and the needed “come from the enterprise and go to the enterprise” and make the professional construction close to the demand of the forefront, which has effectively boosted the modernization construction of the fashion design major and has achieved the real “zero-distance” connection of talent training and vocational positions.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTOR

Mr. LAM Foo Wah, aged 61, is a co-founder of the Group. Mr. Lam is the Chairman and the Managing Director of the Company. Mr. Lam oversees the Group's operations and is responsible for formulating the Group's overall policy and development. He has over 30 years of experience in the manufacturing and marketing of garments industry. Mr. Lam is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance. He was an executive director, the chairman and CEO of Theme International Holdings Limited.

Ms. SO Siu Hang, Patricia, aged 51, joined the Group in 1990. Ms. So is an Executive Director of the Company and responsible for the Group's strategic direction and operational leadership of the core manufacturing unit. She holds a bachelor degree in commerce and finance from the University of Toronto and a master degree in business administration from York University in Canada. Prior to joining the Group, she worked for an international bank. She was an executive director of Theme International Holdings Limited.

NON-EXECUTIVE DIRECTOR

Mr. CHAN Wah Tip, Michael, aged 57, joined the Group as Company Secretary in 1992. Mr. Chan is a Non-Executive Director, a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Chan was an Independent Non-executive Director of the Company prior to his re-designation as a Non-executive Director of the Company in October 2004. He has been practising as a solicitor in Hong Kong for over 30 years. Mr. Chan is a partner of Wilkinson & Grist which is the legal adviser of the Company, a non-executive director of Shougang Concord Technology Holdings Limited and an independent non-executive director of L.K. Technology Holdings Limited.

Professor YEUNG Kwok Wing, aged 62, joined the Group in 2000. Professor Yeung is a Non-executive Director, a member of the Audit Committee and the Remuneration Committee of the Company. He is currently an executive director of Clothing Industry Training Authority ("CITA") in Hong Kong. He holds a PhD from the Queen's University of Belfast, Northern Ireland. Professor Yeung specializes in textile product development, quality assurance and management and serves as various honorary fellows and members of international associations of textile, dyers and colorists as well. He has a long and distinguished academic career and was associated with The Hong Kong Polytechnic University ("PolyU") for more than 30 years before joining CITA in June 2006. His administrative ability is also highly appreciated in PolyU when he was posted as its Vice President overseeing academic development from 2002 to 2005. He was an independent non-executive director of Theme International Holdings Limited and SRE Group Limited.

We would like to thank our staff for their dedication and contribution over the past year in furthering our improvement and overfulfilment.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. WOO King Wai, aged 65, joined the Group in 1992. Mr. Woo is an Independent Non-executive Director, a member of the Audit Committee and Remuneration Committee of the Company. He holds a bachelor degree in architecture (Honours) from the University of California, Berkeley, the USA. He is a member of the Hong Kong Institute of Architects and the Royal Australian Institute of Architects. He served as an executive member of the Hainan Political Consultative Conference, the People's Republic of China.

Mr. WONG Shiu Hoi, Peter, aged 69, joined the Group in 2004. Mr. Wong is an Independent Non-executive Director, a member of the Audit Committee and the chairman of the Remuneration Committee of the Company. He holds a Master of Business Administration Degree from the University of East Asia, Macau (currently known as the "University of Macau"). Mr. Wong possesses over 30 years of experience in the financial services industry. He is an executive director, the deputy chairman and managing director of Taifook Securities Group Limited and a director of Hong Kong Securities Institute. He was an independent non-executive director of Ching Hing (Holdings) Limited and Theme International Holdings Limited as well as the chairman of The Hong Kong Institute of Directors.

Mr. LEUNG Hok Lim, *FCPA (Aust.), CPA (Macau), FCPA (Practising)*, aged 75, joined the Group in 2004. Mr. Leung is an Independent Non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Leung is the founding and senior partner of PKF, Accountants and Business Advisers, a non-executive director of Beijing Hong Kong Exchange of Personnel Centre Limited and an independent non-executive director in a number of listed companies in Hong Kong, namely, Fujian Holdings Limited, Phoenix Satellite Television Holdings Limited, S E A Holdings Limited, Yangtzekiang Garment Limited and YGM Trading Limited. Mr. Leung was an independent non-executive director of Bright International Group Limited and Theme International Holdings Limited.

SENIOR MANAGEMENT

Mr. CHAN Chun Man, Benedict, aged 55, joined the Group in 1992. He is the Chief Operating Officer and Chief Financial Officer of August Silk Inc. and High Fashion International (USA) Inc. He is responsible for overseeing the Group's affairs in USA. He graduated from the University of Hong Kong with a bachelor degree in economics and pure mathematics. He is a member of The Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants.

Ms. CHAN Wai Wei, Cynthia, aged 37, joined the Group in 2000. Ms. Chan is the Company Secretary of the Company and has over 10 years' experience in accounting and auditing. Prior to joining the Group, she worked for an international accounting firm. She is a member of The Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries & Administrators.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT (Cont'd)

Ms. Ellen DAWSON-BRUCKENTHAL, aged 53, is the Executive Vice President and Chief Merchandise Officer of August Silk Inc. She began her career in the Executive Training Program at Bloomingdales, a division of Federated Dept. Stores in 1978 where she consequently held the positions of Store Manager, Senior Buyer and Divisional Merchandise Manager. She is a graduate of Berkeley College and holds a degree in Fashion Marketing & Management. She joined August Silk Inc. in 1994.

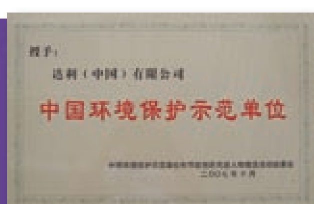
Mr. FEI Jian Ming, aged 58, joined the Group in 1993. He is a director of High Fashion Garments Company Limited. He is the chairman and the CEO of High Fashion (China) Co., Ltd. He graduated from the Chinese Department of Zhejiang University. He also holds a master's degree in business administration and is a senior economist. He is a part-time professor of Zhejiang Sci-Tech University, as a master's teacher. He is a dean of Hangzhou Vocational & Technical College – High Fashion Womenwear Institute. He is the president of Hangzhou Silk Industry Association. He is the managing director of Hangzhou Silk & Women' Wear Exhibition Co., Ltd. and the vice-president of Hangzhou Foreign Investment Association. He has over 20 years' management experience in clothing industry. In 2009, he was awarded the first Quality Hangzhou Businessman and 2009 Personality of China's Economic Industry Revitalization.

Mr. Daniele FURLAN, aged 53, joined the Group in 2004 as a consultant. He is primarily responsible for the sales and marketing of fabrics and garments to European market and provides technical, organizational and industrial knowhow to the Group's factories. He is responsible for the product development of the Group and is the CEO of Advance Textile Centre of High Fashion (China) Co., Ltd., the supplier of finished fabrics and circular knit. He holds a diploma in business administration and a master in psychology from Padova University. Previously, he worked as a manager in the Benetton Group for more than 25 years and was responsible for various production units and sourcing divisions. In particular, he was responsible for the worldwide production licensing, fabric mill, garment, accessories and shoes outsourcing department of the Benetton Group. He was the managing director of Lanificio di Follina and also, for seven years, the managing director of Benetton (Far East) Limited in Hong Kong.

Mr. Donald Michael HORNING, aged 63, joined the Group as vice president of High Fashion Garments, Inc. in 1999. Currently, he is the President and CEO of August Silk Inc. and High Fashion Garments, Inc. He has held senior management positions in the apparel industry for the past 30 years, including Jones Apparel Group, Bugle Boy, J.H. Collectibles, and David Crystal/Izod. He graduated from Syracuse University with a bachelor degree in business administration and attended the MBA program at The University of Chicago.

Ms. HU Ze Lin, aged 59, joined the Group in 1993. She is a director and the Deputy General Manager of High Fashion Silk (Zhejiang) Co. Ltd. and responsible for the production of that company. She attained matriculated education and is the economist in China. She has over 30 years of experience in textile industry and extensive experience in quality control in silk weaving production management.

We would like to thank our staff for their dedication and contribution over the past year in furthering our improvement and overfulfilment.



Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT (Cont'd)

Ms. LEUNG Suk Yin, Hilda, aged 53, has been with the Group since its inception. She is a director of High Fashion Garments Company Limited. Ms. Leung holds a diploma in business management from the Hong Kong Polytechnic University and the Hong Kong Management Association. She has over 30 years of experience in the sales, merchandising and production of garments.

Mr. LIN Ping, aged 49, joined the Group in 1993. He is the Chairman and the CEO of High Fashion Silk (Zhejiang) Co., Ltd. and the Managing Director of Silk World Ltd. He is responsible for the operation and administration of these two companies. He serves as a Vice President of China Fashion Color Association, Vice President of China Textile Chamber of Commerce, Vice President of China Silk Quilt Association, an executive member of Zhejiang Textile Association, an executive member of China Textile Photography Association, an executive member of Zhejiang Textile Engineering Society, Vice President of Zhejiang Silk Association, Vice President of Shaoxing Textile Engineering Association, Representative of 6th NPC of Shaoxing, Part-time Professor of Zhejiang Sci-Tech University and Honorary Professor of Hangzhou Vocational Technical College. He attains EMBA education and is the senior economist in China. He has over 30 years' experience in textile industry and extensive experience in product design and development, silk weaving production and management.

Mr. LIN Yuet Man, Edwin, aged 49, joined the Group in 1997. He is the Financial Director of a subsidiary of the Company and has over 30 years' experience in accounting field. He is a member of The Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries & Administrators. He also holds a master degree in business administration.

Mr. Daniele PACHERA, aged 54, joined the Group in 2008. He is the Chief Operating Officer of Advanced Textile Centre of High Fashion (China) Co., Ltd. He holds a diploma in textile chemistry from the Como Silk Textile School and a master degree in silk textile management from the Polytechnic University in Milan (Italy). He has extensive experience in the luxury fashion sector (Ferragamo, Louis Vuitton) having worked for 14 years as senior manager for Mantero Seta Company in Como – Italy. His strong focus is the manufacturing of men's accessories, woman's accessories and textile for garment and bags, with a specialization in quality upgrade and product development. He has over 25 years experience in silk textile industry.

Mr. PANG Kin Wah, Julian, aged 37, joined the Group in 2004. He is the Chief Financial Officer of Garment Centre of High Fashion (China) Co., Ltd. He is a member of the Hong Kong Institute of Certified Public Accountants and has Certified of Internal Auditors (CIA) professional designation. He holds a degree of bachelor of Business Administration (Honours) in Accountancy from the Hong Kong Polytechnic University and a master degree in Business Administration from the Chinese University of Hong Kong. Prior to joining the Group, he worked for a financial institution and an international accounting firm.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT (Cont'd)

Ms. Donna POACH, aged 55, joined the Group in 2006. She is the Corporate Operations Director of the Group and is responsible for all related matters of corporate production reengineering, management production systems reorganization and merchandising flow efficiency optimization. Prior to joining the Group, she held senior management positions at various companies engaging in the import garment business, including J.G. Hook in Hong Kong and South Korea and worldwide for Jones Apparel Group and Chaus.

Mr. RUAN Gen Yao, aged 49, joined the Group in 2001. He is the General Manager of Hangzhou Dalifu Silk Finishing Co., Ltd. and responsible for the operation of that company. He is the politician engineer in China and Labour Model of Hangzhou and the representation of the People's Congress of Tonglu, China. He has over 10 years' experience in silk finishing and dyeing industry and extensive experience in business management.

Mr. Nicholas E. G. WRIGHT, aged 55, joined the Group in 1993. He is the Managing Director of High Fashion (U.K.) Limited. He has over 20 years of experience in the clothing industry.

Mr. ZHANG Shan Pu, aged 54, joined the Group in 1999. He is the General Manager of Suzhou High Fashion Garments Co., Ltd. and responsible for the operation of that company. He graduated from an institution. Mr. Zhang has over 10 years of experience in silk knitting garments management and extensive experience in business management.

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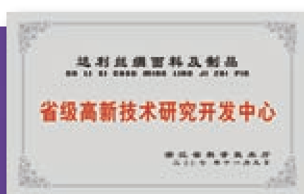

Report of the Directors

The directors present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 47 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 33 to 111.

An interim dividend of 3 HK cents per ordinary share was paid on 19 October 2009. The directors recommended the payment of a final dividend of 5 HK cents and a special dividend of 8 HK cents per ordinary share in respect of the year to shareholders on the register of members on 9 June 2010.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements and reclassified as appropriate, is set out on page 112. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 14 and 16 to the consolidated financial statements, respectively.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, is set out in note 36 to the consolidated financial statements.

SHARE OPTION SCHEME

A summary of the share option scheme during the year is set out in note 37 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the year, the Company repurchased 10,846,000 (2008: 8,836,000) ordinary shares of HK$0.10 each of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

Month of the repurchases	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate consideration paid (including direct costs) HK$
January 2009	900,000	1.58	1.48	1,377,556
February 2009	840,000	1.45	1.38	1,196,426
April 2009	546,000	1.37	1.29	729,200
May 2009	478,000	1.40	1.38	671,357
September 2009	1,962,000	1.75	1.74	3,449,197
October 2009	5,120,000	1.75	1.74	9,002,072
December 2009	1,000,000	1.60	1.60	1,607,776
	10,846,000			18,033,584

The above repurchased shares were cancelled during the year and the issued share capital of the Company was reduced by the par value thereof. An amount equivalent to the par value of the shares cancelled has been transferred from the accumulated profits of the Company to the capital redemption reserve.

The repurchase of the Company's shares during the year was effected by the directors, pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by enhancing the net asset value and earnings per share of the Group.

Save as disclosed herein, the Company had not redeemed any of the Company's listed securities, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2009, the Company's reserves available for distribution, calculated in accordance with the provisions of The Companies Act 1981 of Bermuda (as amended), amounted to HK$159,317,000, of which HK$39,966,000 has been proposed as final and special dividends for the year. In addition, the Company's share premium account, in the amount of HK$273,413,000 may be distributed in the form of fully paid bonus shares.

CHARITABLE DONATIONS

During the year, the Group made charitable donations totalling HK$1,501,000 (2008: HK$3,256,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 33% of the total sales for the year and sales to the largest customer included therein amounted to 14.6%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest customers.

DIRECTORS

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

Executive directors:

Mr. Lam Foo Wah
Ms. So Siu Hang, Patricia

Non-executive directors:

Mr. Chan Wah Tip, Michael
Professor Yeung Kwok Wing

Independent non-executive directors:

Mr. Woo King Wai
Mr. Wong Shiu Hoi, Peter
Mr. Leung Hok Lim

In accordance with bye-law 87 of the Company's Bye-laws, Professor Yeung Kwok Wing, Mr. Lam Foo Wah and Mr. Wong Shiu Hoi, Peter will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

INDEPENDENCE CONFIRMATION

Pursuant to the Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), each independent non-executive director re-affirmed his independent status with the Company as at 31 December 2009, and the Company considered that they are independent.

DIRECTORS' EMOLUMENT

Details of the directors' emoluments for year 2009 are set out in the Remuneration Committee of the Corporate Governance Report on page 28, and particulars as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in notes 9 to the consolidated financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 15 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed under the section "Related party Transactions" in note 46 to the consolidated financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2009 are disclosed in note 46 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2009, the long and short positions of the directors, chief executives of the Company and their associates 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 ("SFO")) which have been notified to the Company pursuant to the provision of Divisions 7 and 8 of Part XV of the SFO (including long and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) and have been recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which have been notified to the Company and the Stock Exchange pursuant to the model code for securities transactions by directors of listed issuers ("Model Code") contained in the Listing Rules, were as follows:

(i) Long Positions in the Company's Shares

Name of Directors	*Notes*	Capacity	Nature of interests	Number of ordinary shares held	Percentage of the Company's issued capital *(Note 3)*
Lam Foo Wah	*1, 2*	Other Interest	Other	143,719,986	46.49%
So Siu Hang, Patricia		Beneficial owner	Personal	2,824,309	0.91%

(ii) Long Position in Shares of Associated Corporation

Name of Director	*Note*	Name of associated corporation	Relationship with the Company	Capacity	Number of ordinary shares held	Percentage of the associated corporation's issued capital
Lam Foo Wah	*4*	High Fashion Knitters Limited	Subsidiary	Interest of controlled corporations	5,339,431	35.60%

Notes:

1. Mr. Lam Foo Wah is deemed to have interests in 108,802,419 ordinary shares which are beneficially owned by Hinton Company Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.

2. Mr. Lam Foo Wah is deemed to have interests in 34,917,567 ordinary shares which are beneficially owned by High Fashion Charitable Foundation Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.

3. The issued share capital of the Company is 309,133,550 shares as at 31 December 2009.

4. These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

Save as disclosed above, as at 31 December 2009, none of the directors, chief executives of the Company nor their associates had or was deemed to have any long or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which has been notified to the Company and the Stock Exchange pursuant to the above mentioned Model Code of the Listing Rules.

Furthermore, save as disclosed in the "Share Option Scheme" section above, at no time during the year ended 31 December 2009 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, the following substantial shareholders, other than directors and chief executives of the Company, had the long and short positions in the shares and underlying shares of the Company which have been disclosed to the Company pursuant to the provision of Divisions 2 and 3 of Part XV of the SFO, have been recorded in the register kept by the Company pursuant to section 336 of SFO:

Long Positions in the Company's Ordinary Shares:

Name of Shareholders	*Notes*	Capacity	Number of ordinary shares held *(note 3)*	Percentage of the Company's issued share capital
Hinton Company Limited	*1*	Beneficial owner	108,802,419	35.20%
High Fashion Charitable Foundation Limited	*1*	Beneficial owner	34,917,567	11.30%
Dresdner VPV N.V. ("DVPV")	*2*	Investment manager	21,376,500	6.91%
Commerzbank Aktiengesellschaft ("CAG")	*2*	Interest of controlled corporations	21,376,500	6.91%
Dresdner Bank Aktiengesellschaft ("DBAG")	*2*	Interest of controlled corporations	21,376,500	6.91%

Notes:

1. Such interests have been disclosed as interests of Mr. Lam Foo Wah in the "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above.

2. The 21,376,500 ordinary shares are held directly by DVPV, of which is indirectly controlled by CAG and DBAG and therefore are deemed to have indirect interests in the 21,376,500 ordinary shares.

3. The issued share capital of the Company is 309,133,550 shares as at 31 December 2009.

SUBSTANTIAL SHAREHOLDERS (Cont'd)

Save as disclosed above, as at 31 December 2009, no person, other than the directors or chief executives of the Company, whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered a long or short position in the shares, underlying shares and debentures of the Company that was required to be recorded pursuant to section 336 of the SFO.

SUFFICIENCY OF 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, there is a sufficiency of public float of the Company's securities as required under the Listing Rules.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions and to certain extent of the recommended best practices set out in Appendix 14 Code on Corporate Governance Practices of the Listing Rules throughout the accounting year ended 31 December 2009, except code provision A.1.1 on the regular board meeting held and code provision A.2.1 on the separate roles of the chairman and CEO.

Details of the Company's corporate governance report are set out on pages 23 to 30.

AUDITOR

The financial statements for the year ended 31 December 2009 were audited by Deloitte Touche Tohmatsu.

A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

LAM FOO WAH
Chairman & Managing Director

Hong Kong, 16 April 2010

The Board of Directors ("Board") and the management of the Company are committed to establishment and maintaining of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management and enhancing shareholders' value. The corporate governance principles of the Company emphasise a quality Board, sound internal controls, and accountability and transparency to all shareholders.

The Company has complied with all the code provisions and to certain extent of the recommended best practices set out in Appendix 14 Code on Corporate Governance Practices (the "CG Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting year ended 31 December 2009, except code provision A.1.1 on the regular board meeting held and code provision on A.2.1 on the separate roles of the chairman and chief executive officer as described below.

BOARD COMPOSITION AND BOARD PRACTICES

The Board of the Company is collectively responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value.

At the year end, the Board of the Company consisted of a total of seven directors, comprising two Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. One of the three Independent Non-executive Directors has appropriate professional qualifications, or accounting or related financial management expertise. The names of directors and their positions are as follows:

Name of Director	Position
Executive directors:	
Mr. Lam Foo Wah	Chairman and Managing Director
Ms. So Siu Hang, Patricia	Executive Director
Non-executive directors:	
Mr. Chan Wah Tip, Michael	Non-Executive Director
Professor Yeung Kwok Wing	Non-Executive Director
Mr. Woo King Wai	Independent Non-Executive Director
Mr. Wong Shiu Hoi, Peter	Independent Non-Executive Director
Mr. Leung Hok Lim	Independent Non-Executive Director

More than one-third member in the Board is Independent Non-executive Director. During the financial year, each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent.

BOARD COMPOSITION AND BOARD PRACTICES (Cont'd)

All directors (including Non-executive Directors) are subject to retirement by rotation once every three years and are subject to re-election in accordance with the Company's Bye-laws and the CG Code. In accordance with the Company's Bye-Laws, newly appointed director(s) is/are required to retire and can offer themselves for re-election at the first general meeting following their appointment.

In 2009, it deviates from the code provision A.1.1 of the CG Code as the Board meetings held three times a year. The Board believes that such arrangements were adequate to cover all major issues arising throughout the year ended 31 December 2009. In any event all Directors were available for consultation by management from time to time during the year. The attendance of individual director to the Board meeting is set out on page 25 of this report.

Review of the Board composition is made regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out on pages 11 to 15.

In order to ensure that the Board is able to fulfill its responsibilities, it has established and delegated specific responsibilities to the Audit Committee and Remuneration Committee. The details of the committees are stipulated on pages 27 to 28 of this report.

The Company provides at least 14 days' notices of every Board meeting to all Directors to give them an opportunity to attend. Board papers are circulated not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings.

During the financial year, the Group Chief Financial Officer and the Company Secretary attended all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. Directors had full access to information on the Group and were able to seek independent professional advice whenever deemed necessary by the Directors. The Company Secretary prepared minutes and kept records of matters discussed and decisions resolved at all Board meetings.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed.

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

BOARD COMPOSITION AND BOARD PRACTICES (Cont'd)

Board and Committees Attendance

Details of Directors' attendance at the Board and respective Board Committees Meetings held in 2009 are as follows:

	Meetings Attended/held		
Name of Directors	Board	Audit Committee	Remuneration Committee
Executive directors:			
Mr. Lam Foo Wah	3/3	N/A	N/A
Ms. So Siu Hang, Patricia	2/3	N/A	N/A
Non-executive directors:			
Mr. Chan Wah Tip, Michael	3/3	1/2	1/1
Professor Yeung Kwok Wing	2/3	2/2	1/1
Independent non-executive directors:			
Mr. Woo King Wai	3/3	2/2	1/1
Mr. Wong Shiu Hoi, Peter	3/3	2/2	1/1
Mr. Leung Hok Lim	2/3	2/2	1/1

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the Chairman of the Board ("Chairman") and the Managing Director are held and performed by Mr. Lam Foo Wah, the same individual. Although it deviates from the code provision A.2.1 of the CG Code, the Board considers that the function of the Chairman and the Managing Director in the Company's strategic planning and development process are overlapping and it may not be for the benefit of the Company to have separate individuals occupying these two offices given the conditions of the Group and its stage of development.

The Board, led by the Chairman, is responsible for the approval and monitoring of the Group's overall strategies and policies; evaluating the performance of the Group; and oversight of management. One of the important roles of the Chairman is to provide leadership to the Board to ensure that the Board acts in the best interests of the Group. The Chairman ensure that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. All Directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER (Cont'd)

Management is responsible for the day-to-day operations of the Group under the leadership of the Chairman who is also the Managing Director. The Managing Director, working with the other executive directors and the executive management team of each business division, is responsible for managing the businesses of the Group, including implementation of strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group. All Directors have made full and active contribution to the affairs of the Board and the Board always acts in the best interests of the Group.

With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. Apart from the regular Board meetings, the Chairman may hold meetings with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions.

Confirmation has been sought from all Directors and they have complied with the required standard set out in the Model Code for the year ended 31 December 2009.

The Company has established the written guidelines on no less exacting terms than the Model Code relating to securities transactions for the relevant employees.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the consolidated financial statements of the Group.

With the assistance of the finance department which is under the supervision of the Group Chief Financial Officer, the Directors ensure the preparation of the consolidated financial statements of the Group is in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the publication of the consolidated financial statements of the Group is in a timely manner.

The report of the Auditor of the Company about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 31 to 32.

AUDITOR'S REMUNERATION

The Group's external auditor is Deloitte Touche Tohmatsu. For the year ended 31 December 2009, the Auditor of the Company received approximately HK$3,938,000 for audit service and HK$1,077,000 for tax and other services.

AUDIT COMMITTEE

During the financial year, the audit committee of the Company (the "Audit Committee") comprises two Non-executive Directors namely, Mr. Chan Wah Tip, Michael and Professor Yeung Kwok Wing and three Independent Non-executive Directors, namely, Mr. Leung Hok Lim (the Chairman of the Audit Committee), Mr. Woo King Wai and Mr. Wong Shiu Hoi, Peter.

In April 2010, the Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2009.

The Company has complied with the requirement of the Listing Rules in establishing an audit committee comprising at least three members who must be Non-executive Directors only, and the majority thereof must be Independent Non-executive Directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Audit Committee adopted the terms of reference with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and in accordance with the requirements of the CG Code. The terms of reference of the Audit Committee are posted on the Company's website.

The main duties of the Audit Committee are set out below:

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

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

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

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

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

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

The Audit Committee held two regular meetings during the year to review and provide supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the Auditor of the Company. The members' attendance to the Committee meeting is listed out on page 25.

Minutes drafted by the secretary of Audit Committee are circulated to members of the Audit Committee within a reasonable time after each meeting.

No member of the Audit Committee is a former partner of the existing auditing firm of the Company during the one year after he/she ceases to be a partner of the auditing firm.

REMUNERATION COMMITTEE

The Company established a remuneration committee of the Company ("Remuneration Committee") under the Board in August 2005. During the year, the Remuneration Committee comprises Mr. Wong Shiu Hoi, Peter (Chairman of the Remuneration Committee), Mr. Chan Wah Tip, Michael, Professor Yeung Kwok Wing, Mr. Woo King Wai and Mr. Leung Hok Lim. A regular meeting of Remuneration Committee has been convened in April 2009 and members' attendance to the Remuneration Committee meeting is listed out on page 25.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and reviewing the specific remuneration packages of all Executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time. Terms of reference of the Remuneration Committee which have been adopted by the Board are posted on the Company's website.

The Remuneration Committee consult the Chairman about their proposals relating to remuneration package and other human resources issues of the directors and senior management of the Company. The emoluments of directors and senior management are based on the skill, knowledge and involvement in the Company's affairs of each director and senior management and are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. In addition, details of the Company's share option granted to directors and senior management are set out in note 37 to the consolidated financial statements.

NOMINATION OF DIRECTORS

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 making recommendations to the Board on the appointment of directors, evaluation of board composition and the management of board succession. The Board carries out the process of selecting and recommending candidates for directorship including the consideration of referrals and engagement of external recruitment professionals when necessary.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board conducts reviews of the effectiveness of the internal control system for the year ended 31 December 2009 covering all material controls, including financial, operational and compliance controls and risk management functions by considering reviews performed by the Audit Committee, executive management and both the group internal audit department and external auditor. The Group's system of internal control comprises a defined management structure with limits of authority, is designed to help the achievement of business objectives, safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations.

INTERNAL CONTROL (Cont'd)

The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

The criteria for the Board to assess the effectiveness of the system of internal control are listed below:

(i) Organisational Structure

An organisational structure with operating policies and procedures, lines of responsibility and delegated authority has been already established.

(ii) Authority and Control

The relevant Executive Directors and senior management are delegated with respective levels of authorities with regard to key corporate strategy and policy and contractual commitments. The Board is responsible for handling and dissemination of price sensitive information through discussion and delegation of authority to the Company Secretary.

(iii) Budgetary Control and Financial Reporting

Budgets are prepared annually by the senior management and are subject to review and approval of the Executive Directors prior to being adopted. There are procedures for the appraisal, review and approval of major capital and recurrent expenditure. Results of operations against budgets are reported regularly to the Executive Directors. Proper controls are in place for the recording of complete, accurate and timely accounting and management information. Regular reviews and audits are carried out to ensure that the preparation of consolidated financial statements is carried out in accordance with generally accepted accounting principles, the Group's accounting policies and applicable laws and regulations.

(iv) Systems and Procedures

Systems and procedures are set to identify, measure, manage and control risks including business, compliance, operational, financial and information services risks that may have an impact on the Group and each principal division. Exposure to these risks is monitored by the Executive Directors and the management of the respective principal divisions.

(v) Internal Audit

The group internal audit department performs independent reviews of the controls and risks identified to provide reasonable assurance to management of the Company and principal divisions and the Audit Committee that controls have been set in place and adequately addressed.

INTERNAL CONTROL (Cont'd)

The group internal audit department monitors compliance with policies and procedures as well as the effectiveness of internal control structures across the Company and the Group. To preserve the independence of the group internal audit department, the group internal audit department reports directly to the Audit Committee. The group internal audit department plans its internal audit schedules annually in consultation with, but independent of, management of the Group and the principal divisions. In addition to its agreed annual schedule of work, the group internal audit department conducts other special reviews as required. As a key criterion of assessing the effectiveness of the internal control system, the Board and the Audit Committee actively monitor the number and seriousness of findings raised by the group internal audit department and also the corrective actions taken by relevant departments.

According to the 2009 internal audit reports, the Group's internal control system is functioning effectively and there was no significant weakness found in the course of the audits carried out during the year. The Board, through the Audit Committee and the internal audit function, has reviewed the effectiveness of the Group's internal control systems and is of the view that there are no suspected frauds, irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations that cause the Board to believe that the systems of internal control are ineffective or inadequate. The Board is satisfied that the Company and the Group have fully complied with the code provisions on internal control as set forth in the CG Code for the year ended 31 December 2009.

COMMUNICATION WITH SHAREHOLDERS

At 2009 Annual General Meeting ("2009 AGM"), a separate resolution was proposed by the Chairman of that meeting in respect of each separate issue, including the re-election of directors. The Chairman of the Board, and Chairmen of the Audit and Remuneration Committees, or in absence of the chairman of such committees, any member from the respective committees, attended the 2009 AGM to address shareholders queries.

The rights of shareholders to demand a poll and the procedures for a poll voting on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights and procedures are included in the circulars dated 28 April 2009 in relation to shareholders' meeting(s).

The Company establishes different communication channels with shareholders and investors: (i) shareholders can receive printed copies of corporate information, (ii) the general meeting provides a forum for shareholders to raise comments and exchange views with the Board, (iii) the Company's website offers communication channel between the Company and its shareholders and investors; and (iv) the Company's Hong Kong Branch Registrar and Transfer Office serve the shareholders respecting all share registration matters.

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF HIGH FASHION INTERNATIONAL LIMITED
達利國際集團有限公司
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of High Fashion International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 111, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 CONSOLIDATED 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 the consolidated 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 Bermuda Companies Act 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

TO THE MEMBERS OF HIGH FASHION INTERNATIONAL LIMITED (Cont'd)
達利國際集團有限公司
(Incorporated in Bermuda with limited liability)

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 16 April 2010

Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Revenue	5	**2,271,566**	2,598,031
Cost of sales		**(1,581,413)**	(1,874,324)
Gross profit		**690,153**	723,707
Other income		**68,516**	82,544
Other gains and losses	7	**82,622**	19,073
Administrative expenses		**(323,250)**	(330,253)
Selling and distribution expenses		**(278,931)**	(329,659)
Finance costs	8	**(45,900)**	(68,299)
Share of losses of jointly controlled entities		**(753)**	(209)
Profit before taxation		**192,457**	96,904
Income tax expense	10	**(35,007)**	(18,551)
Profit for the year	11	**157,450**	78,353
Other comprehensive income (expense)	11A		
Gain on revaluation of properties		**39,577**	11,700
Share of other comprehensive income of jointly controlled entities		**1**	1,078
Exchange difference arising on translation		**(2,282)**	81,717
Reclassification of translation reserve to profit and loss on disposal of subsidiaries		**6,287**	–
Gain (loss) on fair value changes on cash flow hedges		**10,915**	(124,209)
Reclassification to profit and loss on cash flow hedges		**(77,457)**	(92,783)
Income tax relating to components of other comprehensive income		**4,958**	37,397
Other comprehensive income (expense) for the year, net of tax		**(18,001)**	(85,100)
Total comprehensive income (expense) for the year		**139,449**	(6,747)
Profit for the year attributable to:			
Owners of the Company		**165,507**	90,635
Minority interests		**(8,057)**	(12,282)
		157,450	78,353
Total comprehensive income (expense) attributable to:			
Owners of the Company		**148,418**	3,555
Minority interests		**(8,969)**	(10,302)
		139,449	(6,747)
Earnings per share	13		
Basic and diluted		**HK$0.52**	HK$0.28

Consolidated Statement of Financial Position

At 31 December 2009

	Notes	31/12/2009 HK$'000	31/12/2008 HK$'000 (Restated)	1/1/2008 HK$'000 (Restated)
Non-current assets				
Property, plant and equipment	*14*	**858,855**	911,227	733,011
Prepaid lease payments	*15*	**71,013**	78,443	76,207
Deposits for land use rights	*15*	**31,877**	18,148	17,172
Investment properties	*16*	**211,568**	102,700	85,920
Goodwill	*17*	**–**	28,215	23,808
Intangible assets	*18*	**1,203**	1,890	11,094
Investments in associates	*20*	**–**	–	–
Investments in jointly controlled entities	*21*	**19,620**	19,862	19,537
Available-for-sale investments, at cost		**675**	675	675
Deferred tax assets	*34*	**9,064**	7,101	6,347
Long-term receivables	*22*	**31,813**	–	–
Derivative financial instruments	*27*	**2,422**	22,239	252,572
		1,238,110	1,190,500	1,226,343
Current assets				
Inventories	*23*	**333,964**	371,815	407,756
Trade receivables	*24*	**292,836**	296,917	328,431
Bills receivable	*24*	**63,868**	71,447	59,997
Prepaid lease payments	*15*	**1,272**	1,509	1,441
Deposits, prepayments and other receivables	*25*	**302,799**	399,131	508,446
Amounts due from jointly controlled entities	*26*	**1,985**	17,713	10,014
Tax recoverable		**63,532**	49,141	32,382
Derivative financial instruments	*27*	**34,850**	76,623	64,682
Structured deposits	*28*	**280,607**	226,753	–
Short-term deposits	*29*	**301,714**	376,704	–
Pledged bank deposits	*42*	**–**	142	108
Bank balances and cash	*29*	**452,125**	400,454	671,676
		2,129,552	2,288,349	2,084,933

Consolidated Statement of Financial Position

At 31 December 2009

	Notes	31/12/2009 HK$'000	31/12/2008 HK$'000 (Restated)	1/1/2008 HK$'000 (Restated)
Current liabilities				
Trade payables	*30*	**251,723**	263,565	296,077
Bills payable	*30*	**20,721**	3,807	4,468
Other payables and accruals		**194,447**	155,926	176,707
Amounts due to jointly controlled entities	*26*	**4,637**	25,630	–
Amount due to an associate	*31*	**595**	595	597
Tax payable		**185,049**	171,393	116,663
Derivative financial instruments	*27*	**10,209**	23,166	17,506
Obligations under finance leases	*32*	**297**	88	337
Bank borrowings	*33*	**908,354**	1,007,578	374,167
Bank overdrafts	*33*	**51**	447	599
		1,576,083	1,652,195	987,121
Net current assets		**553,469**	636,154	1,097,812
Total assets less current liabilities		**1,791,579**	1,826,654	2,324,155
Non-current liabilities				
Obligations under finance leases	*32*	**411**	81	231
Bank borrowings	*33*	**82,000**	177,000	483,000
Deferred tax liabilities	*34*	**62,576**	54,487	145,715
Derivative financial instruments	*27*	**4,181**	–	1,400
Provision for long service payments	*35*	**2,948**	1,770	929
		152,116	233,338	631,275
		1,639,463	1,593,316	1,692,880
Capital and reserves				
Share capital	*36*	**30,913**	31,998	32,881
Share premium and reserves		**1,608,550**	1,496,055	1,570,360
Equity attributable to owners of the Company		**1,639,463**	1,528,053	1,603,241
Minority interests		**–**	65,263	89,639
Total equity		**1,639,463**	1,593,316	1,692,880

The consolidated financial statements on pages 33 to 111 were approved and authorised for issue by the Board of Directors on 16 April 2010 and are signed on its behalf by:

Lam Foo Wah
DIRECTOR

So Siu Hang, Patricia
DIRECTOR

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2009

	Attributable to owners of the Company											
	Share capital	Share premium account	Translation reserve	Reserve funds	Property revaluation reserve	Capital redemption reserve	Hedging reserve	Other reserve	Accumulated profits	Total	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(Note i)	*(Note ii)*		*(Note iii)*	*(Note iv)*				
At 1 January 2008	32,881	290,822	107,928	14,101	9,707	5,351	259,703	39,853	842,895	1,603,241	89,639	1,692,880
Profit for the year	–	–	–	–	–	–	–	–	90,635	90,635	(12,282)	78,353
Other comprehensive income (expense) for the year	–	–	81,727	–	9,887	–	(178,694)	–	–	(87,080)	1,980	(85,100)
Total comprehensive income (expense) for the year	–	–	81,727	–	9,887	–	(178,694)	–	90,635	3,555	(10,302)	(6,747)
Decrease in minority interest as a result of acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	(14,074)	(14,074)
Transfer to reserve funds	–	–	–	4,589	–	–	–	–	(4,589)	–	–	–
Repurchase of shares, include direct costs	(883)	(7,815)	–	–	–	883	–	–	(12,122)	(19,937)	–	(19,937)
Final and special dividend paid *(note 12)*	–	–	–	–	–	–	–	–	(49,100)	(49,100)	–	(49,100)
Interim dividend paid *(note 12)*	–	–	–	–	–	–	–	–	(9,706)	(9,706)	–	(9,706)
	(883)	(7,815)	–	4,589	–	883	–	–	(75,517)	(78,743)	(14,074)	(92,817)
At 31 December 2008	31,998	283,007	189,655	18,690	19,594	6,234	81,009	39,853	858,013	1,528,053	65,263	1,593,316
Profit for the year	–	–	–	–	–	–	–	–	165,507	165,507	(8,057)	157,450
Other comprehensive income (expense) for the year	–	–	4,006	–	31,936	–	(53,031)	–	–	(17,089)	(912)	(18,001)
Total comprehensive income (expense) for the year	–	–	4,006	–	31,936	–	(53,031)	–	165,507	148,418	(8,969)	139,449
Decrease in minority interest as a result of acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	(167)	(167)
Disposal of subsidiaries *(note 39)*	–	–	–	–	–	–	–	–	–	–	(6,547)	(6,547)
Transfer to reserve funds	–	–	–	3,470	–	–	–	–	(3,470)	–	–	–
Repurchase of shares, include direct costs	(1,085)	(9,594)	–	–	–	1,085	–	–	(8,440)	(18,034)	–	(18,034)
Dividend paid by subsidiaries to minority shareholders	–	–	–	–	–	–	–	–	–	–	(49,580)	(49,580)
Final dividend paid *(note 12)*	–	–	–	–	–	–	–	–	(9,516)	(9,516)	–	(9,516)
Interim dividend paid *(note 12)*	–	–	–	–	–	–	–	–	(9,458)	(9,458)	–	(9,458)
	(1,085)	(9,594)	–	3,470	–	1,085	–	–	(30,884)	(37,008)	(56,294)	(93,302)
At 31 December 2009	**30,913**	**273,413**	**193,661**	**22,160**	**51,530**	**7,319**	**27,978**	**39,853**	**992,636**	**1,639,463**	**–**	**1,639,463**

Notes:

(i) As stipulated by the relevant People's Republic of China ("PRC") laws and regulations, before distribution of the profit each year, the subsidiaries established in the PRC with limited liability shall set aside 10% of their net profit to the statutory surplus reserve. The statutory surplus reserve can only be used upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or increase capital.

(ii) Property revaluation reserve represents the revaluation reserve arising upon the transfer of owner-occupied property and respective prepaid lease payments to investment property, net of deferred tax. The property revaluation reserve will be transferred to accumulated profits when the relevant properties are disposed of.

(iii) Hedging reserve represents the cumulative fair value changes of foreign exchange forward contracts designated as effective hedging instruments in cash flow hedges. During the year, the deferred tax liability in relation to hedging reserve has been taken into account and the deferred tax liabilities at 1 January 2008 and 31 December 2008 was increased by HK$56,151,000 and HK$16,941,000, respectively. Accordingly, the hedging reserve was decreased by HK$56,151,000 and HK$16,941,000 at 1 January 2008 and 31 December 2008, respectively.

(iv) Other reserve represents capitalisation of accumulated profits of a subsidiary as capital contribution to another subsidiary.

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**192,457**	96,904
Adjustments for:			
Allowance for inventory obsolescence		**199**	4,444
Allowance for bad and doubtful debts		**4,925**	11,232
Amortisation of trademarks		**687**	1,690
Amortisation of prepaid lease payments		**1,372**	2,692
Finance costs		**45,900**	68,299
Share of losses of jointly controlled entities		**753**	209
Interest income		**(24,325)**	(42,775)
Increase in fair value of investment properties		**(4,627)**	(2,020)
Depreciation of property, plant and equipment		**98,121**	81,200
(Gain) loss on disposal of property, plant and equipment and prepaid lease payments		**(50,303)**	2,510
Gain on disposal of subsidiaries	*39*	**(89,411)**	–
Discount on acquisition of additional interests in subsidiaries		**(91)**	–
Gain on disposal of a jointly controlled entity		**–**	(1,456)
Impairment loss recognised in respect of amount due from a jointly controlled entity		**3,250**	3,326
Impairment loss recognised in respect of goodwill		**28,215**	1,800
Impairment loss recognised in respect of an intangible asset		**–**	7,500
Impairment loss recognised in respect of property, plant and equipment		**21,000**	10,418
Operating cash flows before movements in working capital		**228,122**	245,973
Decrease in inventories		**23,960**	31,497
(Increase) decrease in trade receivables		**(3,903)**	20,282
Decrease (increase) in bills receivable		**7,579**	(11,450)
Decrease in deposits, prepayments and other receivables		**3,094**	2,935
Decrease in amounts due from jointly controlled entities		**12,478**	–
Decrease in trade payables		**(10,640)**	(32,512)
Increase (decrease) in bills payable		**16,914**	(661)
Increase (decrease) in other payables and accruals		**200,495**	(20,781)
(Decrease) increase in amounts due to jointly controlled entities		**(20,993)**	7,917
Provision for long service payments		**1,709**	1,049
Long service payments utilised		**(531)**	(208)
(Decrease) increase in derivative financial instruments		**(13,989)**	5,660
Cash generated from operations		**444,295**	249,701
Hong Kong Profits Tax paid		**(12,514)**	(22,427)
Overseas taxes paid		**(13,774)**	(12,721)
NET CASH FROM OPERATING ACTIVITIES		**418,007**	214,553

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
INVESTING ACTIVITIES			
Decrease (increase) in short-term deposits		74,990	(376,704)
Repayment from (advance to) an independent third party		113,636	(56,818)
Interest received		21,309	18,637
Proceeds on disposal of property, plant and equipment and prepaid lease payments		12,671	185,864
Decrease (increase) in pledged bank deposits		142	(34)
Purchases of property, plant and equipment		(114,814)	(246,404)
Increase in structured deposits		(51,655)	(222,727)
Net cash outflow on disposal of subsidiaries	39	(38,134)	–
Deposits paid for land use rights		(31,877)	–
Payment for prepaid lease		(12,419)	–
Direct expenses incurred for disposal of subsidiaries	39	(16,206)	–
Capital injection in a newly formed jointly controlled entity		(510)	–
Acquisition of additional interests in subsidiaries		(6,281)	(20,281)
Advances to jointly controlled entities		–	(11,025)
Proceeds on disposal of a jointly controlled entity		–	2,000
NET CASH USED IN INVESTING ACTIVITIES		(49,148)	(727,492)
FINANCING ACTIVITIES			
Repayment of bank borrowings		(1,263,065)	(1,278,681)
Interest paid		(40,645)	(60,903)
Dividends paid by a subsidiary to minority shareholders		(49,580)	–
Dividends paid by the Company		(18,974)	(58,806)
Payment for repurchase of shares		(18,034)	(19,937)
Bank charges paid		(5,231)	(7,365)
Repayments of obligations under finance leases		(291)	(399)
Decrease in trust receipt loans		(241)	(2,699)
Interest paid on obligations under finance leases		(24)	(31)
New bank borrowings raised		1,069,082	1,608,791
Advances from jointly controlled entities		–	17,713
Decrease in amount due to an associate		–	(2)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(327,003)	197,681
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		41,856	(315,258)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		400,007	671,077
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET		10,211	44,188
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		452,074	400,007
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		452,125	400,454
Bank overdrafts		(51)	(447)
		452,074	400,007

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed on page 113 to the annual report.

The functional currency of the Company is Renminbi ("RMB"), the currency of the primary economic environment in which the Company and its major subsidiaries operate. For the purposes of the preparation of the consolidated financial statements and convenience of the financial statements users, the results and financial position of the Group are presented in Hong Kong dollars ("HK$").

The principal activities of the Group are the manufacture, retailing and trading of garments.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – INT 13	Customer loyalty programmes
HK(IFRIC) – INT 15	Agreements for the construction of real estate
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation
HK(IFRIC) – INT 18	Transfers of assets from customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

HKAS 1 (Revised 2007) Presentation of financial statements

HKAS 1 (Revised 2007) has introduced a number of terminology changes (including revised titles for the consolidated financial statements) and changes in format and content of the financial statements.

In addition, the adoption of HKAS 1 (Revised 2007) has resulted in the presentation of the consolidated statement of financial position as at 1 January 2008 as the Group has reclassified items in its financial statements on the application of amendments to HKAS 1 Presentation of financial statements (see below).

HKAS 23 (Revised 2007) Borrowing costs

HKAS 23 (Revised 2007) removes the option available under the previous version of the standard to recognise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as expenses immediately and requires such borrowing costs to be capitalised as part of the cost of the qualifying asset. The Group has applied the transitional requirements in HKAS 23 (Revised 2007) and applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. As the Group did not incur borrowing costs for the qualifying assets, the change has had no impact on amounts reported in prior and current accounting periods.

HKFRS 8 Operating segments

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purposes of allocating resources between segments and assessing their performance. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments. However, the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss and amounts reported for the prior year have been restated to conform to the requirements of HKFRS 8 (see note 6).

Improving disclosures about financial instruments (amendments to HKFRS 7 Financial instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

Amendments to HKAS 1 Presentation of financial statements

HKAS 1 "Presentation of Financial Statements" has been amended to clarify whether derivatives that are classified as held for trading in accordance with HKAS 39 "Financial Instruments: Recognition and Measurement" should be presented as current or non-current. The amendment requires derivatives that are held primarily for trading purposes to be presented as current regardless of their maturity dates. In addition, the amendment requires derivatives that are not held for trading purposes to be classified as current or non-current on the basis of their settlement date. Prior to the amendment, the Group presented all derivative financial instruments as current assets or liabilities. The amendment has had no impact on the Group's results for the reported periods. The amendment has resulted in derivative financial instruments designated as cash flow hedges with carrying amounts of HK$252,572,000 and HK$22,239,000 as at 1 January 2008 and 31 December 2008 being reclassified from current assets to non-current assets and derivative financial instruments designated as cash flow hedges with carrying amounts of HK$1,400,000 as at 1 January 2008 being reclassified from current liabilities to non-current liabilities. In addition, as at 31 December 2009, all derivative financial instruments that are not held for trading purposes have been presented based on their maturity dates of which derivative financial instruments of HK$2,422,000 and HK$4,181,000 have been presented as non-current assets and non-current liabilities, respectively.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related party disclosures[6]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 32 (Amendment)	Classification of rights issues[4]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[3]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[5]
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions[3]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 9	Financial instruments[7]
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners[1]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 July 2010.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 January 2013.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. This standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. In addition, under HKFRS 9, changes in fair value of equity investments are generally recognised in other comprehensive income, with only dividend income recognised in profit or loss. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

Goodwill on acquisition of additional interests in a subsidiary that constitute a business is calculated as the difference between the consideration paid for the additional interests and the book value of the net assets of the subsidiary attributable to the additional interests acquired. Any excess of the Group's share of book value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit of loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill (Cont'd)

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Interests in associates

An associate is an entity over which the Group has a significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivables for goods sold in the normal course of business, net of discount and sales related tax.

Revenue from sale of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or for administrative purposes, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item, including the prepaid lease payment at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated profits.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognised.

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is capitalised as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

Investment properties are properties held to earn rentals and for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in the profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Contingent rents determined with reference to the turnover generated by respective shops using pre-determined formulae are recognised in the profit or loss in the periods when the relevant turnover is recognised.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies (Cont'd)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss in the period when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using first-in, first-out method.

Retirement benefit costs

Payments to Mandatory Provident Fund Scheme and state-managed retirement benefit scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the profit or loss.

Financial assets

The Group's financial assets include loans and receivables, financial assets at fair value through profit or loss ("FVTPL") and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for loans and receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Financial assets at FVTPL

Financial assets classified as financial assets at FVTPL when it is designated as at FVTPL on initial recognition and it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in the profit or loss excludes any interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, deposits and other receivables, loan receivable, amounts due from jointly controlled entities, short-term deposits, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as loans and receivables or financial assets at FVTPL. The Group classified financial instruments that the Group acquired for long term investments as available-for-sale financial assets.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Impairment of financial assets (Cont'd)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and cumulated in a reserve, if any.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at FVTPL

Financial liabilities classified as financial liabilities at FVTPL when it is a derivative that is not designated and effective as hedging instruments and designated as at FVTPL upon initial recognition.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables and accruals, amounts due to jointly controlled entities, amount due to an associate, bank overdrafts and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

The Group designates certain derivatives as hedging instruments in cash flow hedges, which are hedges of highly probable forecast intragroup transactions for foreign currency risk exposure. For hedge of foreign currency exposure, the hedged item represents highly probable forecast intragroup transactions which are denominated in a currency other than the functional currency of respective group entity entering into the transactions and the foreign currency risk under the hedging arrangement will affect the profit or loss.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

Cash flow hedges

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

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as an income immediately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowance for inventories

The management of the Group reviews an aging analysis at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are not suitable for use in current production. The management estimates the net realisable value for such raw materials, work in progress and finished goods based primarily on the latest invoice prices and current market conditions. However, given the competitiveness of the industry, these prices may subsequently be affected. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for these items. At end of the reporting period, the carrying amount of inventories is HK$333,964,000 (31/12/2008: HK$371,815,000).

Income taxes

The Hong Kong Inland Revenue Department ("IRD") initiated a tax audit on certain group companies for the years of assessment 1999/2000 onwards. Since the tax audit is still at a fact-finding stage with different views being exchanged with the IRD, the outcome of the tax audit cannot be readily ascertained with any degree of accuracy. In cases where the tax charged by the IRD are different from the estimated amounts, a material tax charge may arise (see note 10 for details).

In addition, as at 31 December 2009, deferred tax assets of HK$9,064,000 (31/12/2008: HK$7,101,000) have been recognised in the Group's consolidated statement of financial position. The realisability of such deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

5. REVENUE

Revenue represents the amount received and receivable for goods sold by the Group, net of discount and sales related tax. An analysis of the Group's revenue is as follows:

	2009 HK$'000	2008 HK$'000
Manufacture and trading of garments	2,045,013	2,325,193
Retailing of garments	226,553	272,838
	2,271,566	2,598,031

6. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purposes of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. The application of HKFRS 8 has not resulted in a redesignation of the Group's operating segments as compared with the primary segments determined in accordance with HKAS 14. However, the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss and amounts reported for the prior period have been restated to conform to the requirements of HKFRS 8.

The Group's operating and reportable segments are (i) manufacture and trading of garments and (ii) retailing of garments.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the year ended 31 December 2009

	Manufacture and trading of garments HK$'000	Retailing of garments HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE				
External sales	2,045,013	226,553	–	2,271,566
Inter-segment sales *(Note)*	–	25,262	(25,262)	–
Segment revenue	2,045,013	251,815	(25,262)	2,271,566
RESULT				
Segment profit (loss)	277,367	(39,010)	–	238,357
Finance costs				(45,900)
Profit before taxation				192,457

6. SEGMENT INFORMATION (Cont'd)

Segment revenue and results (Cont'd)

For the year ended 31 December 2008

	Manufacture and trading of garments HK$'000	Retailing of garments HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE				
External sales	2,325,193	272,838	–	2,598,031
Inter-segment sales *(Note)*	–	28,169	(28,169)	–
Segment revenue	2,325,193	301,007	(28,169)	2,598,031
RESULT				
Segment profit (loss)	196,238	(31,035)	–	165,203
Finance costs				(68,299)
Profit before taxation				96,904

Note: Inter-segment sales are charged at agreed terms set out in the subcontracting agreement entered into between group companies.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit (loss) earned or incurred by each segment without allocation of finance costs. This is the measure reported to the Company's executive directors for the purposes of resources allocation and performance assessment. In previous period under HKAS 14, the segment profit (loss) also excluded unallocated administrative expenses, directors' salaries, other income and other gains and losses. Furthermore, as the assets and liabilities for operating segments are not provided to the Company's executive directors for the purposes of resources allocation and performance assessment, no segment assets and liabilities are presented accordingly.

6. SEGMENT INFORMATION (Cont'd)

Other segment information

	Manufacture and trading of garments HK$'000	Retailing of garments HK$'000	Consolidated HK$'000
For the year ended 31 December 2009			
Amounts included in the measure of segment profit or loss:			
Depreciation of property, plant and equipment	**84,980**	**13,141**	**98,121**
Amortisation of trademarks	**687**	**–**	**687**
Amortisation of prepaid lease payments	**894**	**478**	**1,372**
Allowance for bad and doubtful debts	**4,813**	**112**	**4,925**
Allowance for (write back of) inventory obsolescence*	**2,489**	**(2,290)**	**199**
Impairment loss in respect of amount due from a jointly controlled entity	**–**	**3,250**	**3,250**
Impairment loss in respect of goodwill	**28,215**	**–**	**28,215**
Impairment loss in respect of property, plant and equipment	**10,540**	**10,460**	**21,000**
Changes in fair value of derivative financial instruments	**8,756**	**–**	**8,756**
Increase (decrease) in fair value of investment properties	**5,900**	**(1,273)**	**4,627**
Gain (loss) on disposal of property, plant and equipment and prepaid lease payments	**54,921**	**(4,618)**	**50,303**
For the year ended 31 December 2008			
Amounts included in the measure of segment profit or loss:			
Depreciation of property, plant and equipment	64,013	17,187	81,200
Amortisation of trademarks	690	1,000	1,690
Amortisation of prepaid lease payments	2,118	574	2,692
Allowance for bad and doubtful debts	10,581	651	11,232
Allowance for (write back of) inventory obsolescence*	7,564	(3,120)	4,444
Impairment loss on amount due from a jointly controlled entity	–	3,326	3,326
Impairment loss in respect of goodwill	–	1,800	1,800
Impairment loss recognised in respect of property, plant and equipment	10,418	–	10,418
Impairment loss in respect of an intangible asset	–	7,500	7,500
Changes in fair value of derivative financial instruments	5,660	–	5,660
Increase in fair value of investment properties	2,200	–	2,200
Loss on disposal of property, plant and equipment and prepaid lease payments	2,066	444	2,510
Gain on disposal of a jointly controlled entity	–	1,456	1,456

* Allowance for obsolete inventory was written back when the relevant inventory was sold.

6. SEGMENT INFORMATION (Cont'd)

Geographical information

The Group's operations are located in the United States of America ("USA"), Europe, Greater China and other areas.

The Group's revenue from external customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue		Non-current assets	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
USA	**1,277,251**	1,501,270	**4,561**	5,732
Europe	**446,099**	442,110	**2,813**	2,638
Greater China	**457,459**	564,277	**1,167,124**	1,132,226
Others	**90,757**	90,374	**18**	27
	2,271,566	2,598,031	**1,174,516**	1,140,623

Note: Non-current assets excluded investments in associates, investments in jointly controlled entities, available-for-sale investments, deferred tax assets, long-term receivables and derivative financial instruments.

Information about major customers

There is a single (2008: single) customer contributed over 10% of the total sales of the Group whose revenue is approximately HK$332 million (2008: HK$324 million).

Additional information regarding redesignation of operating segments

In January 2010, the Group changes the structure of internal organisation which results in redesignation of its operating segments. Under the new structure of internal organisation, the information reported to the chief operating decision maker is analysed based on the types of goods sold, including (i) manufacture and trading of garments and (ii) brand business. Information regarding these two segments is presented below.

6. SEGMENT INFORMATION (Cont'd)

Segment revenues and results

For the year ended 31 December 2009

	Manufacture and trading of garments HK$'000	Brand business HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE				
External sales	1,487,653	783,913	–	2,271,566
Inter-segment sales	247,288	–	(247,288)	–
Segment revenue	1,734,941	783,913	(247,288)	2,271,566
RESULT				
Segment profit (loss)	245,512	(7,155)	–	238,357

For the year ended 31 December 2008

	Manufacture and trading of garments HK$'000	Brand business HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE				
External sales	1,738,698	859,333	–	2,598,031
Inter-segment sales	265,328	–	(265,328)	–
Segment revenue	2,004,026	859,333	(265,328)	2,598,031
RESULT				
Segment profit (loss)	176,585	(11,382)	–	165,203

7. OTHER GAINS AND LOSSES

	2009 HK$'000	2008 HK$'000
Gain (loss) on disposal of property, plant and equipment and prepaid lease payments	50,303	(2,510)
Gain on disposal of subsidiaries *(note 39)*	89,411	–
Allowance for bad and doubtful debts	(4,925)	(11,232)
Changes in fair value of derivative financial instruments	(8,756)	(5,660)
Net foreign exchange gains	3,235	28,270
Increase in fair value of investment properties	4,627	2,020
Discount on acquisition of additional interest in a subsidiary	91	–
Impairment loss recognised in respect of		
– goodwill	(28,215)	(1,800)
– an intangible asset	–	(7,500)
– property, plant and equipment	(21,000)	(10,418)
– amount due from a jointly controlled entity	(3,250)	(3,326)
Gain on derivative financial instruments reclassified from other comprehensive income to profit or loss in respect of discontinued cash flow hedges	1,101	29,773
Gain on disposal of a jointly controlled entity	–	1,456
	82,622	19,073

8. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Interest on:		
Bank loans and overdrafts wholly repayable within five years	40,645	60,903
Finance leases	24	31
Bank charges	5,231	7,365
	45,900	68,299

9. DIRECTORS' EMOLUMENTS AND EMPLOYEE'S EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of seven (2008: seven) directors were as follows:

		Other emoluments			
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Performance related incentive payments	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2009					
Lam Foo Wah	80	5,058	12	4,000	9,150
So Siu Hang, Patricia	80	2,328	12	1,200	3,620
Chan Wah Tip, Michael	120	–	–	–	120
Woo King Wai	120	–	–	–	120
Wong Shiu Hoi, Peter	228	–	–	–	228
Leung Hok Lim	228	–	–	–	228
Yeung Kwok Wing	120	–	–	–	120
Total for 2009	976	7,386	24	5,200	13,586

		Other emoluments			
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Performance related incentive payments	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2008					
Lam Foo Wah	80	5,058	12	–	5,150
So Siu Hang, Patricia	80	2,328	12	320	2,740
Chan Wah Tip, Michael	120	–	–	–	120
Woo King Wai	120	–	–	–	120
Wong Shiu Hoi, Peter	240	–	–	–	240
Leung Hok Lim	240	–	–	–	240
Yeung Kwok Wing	120	–	–	–	120
Total for 2008	1,000	7,386	24	320	8,730

The performance related incentive payments are determined by reference to the individual performance of the directors and approved by the Remuneration Committee.

During both years, no emoluments were paid by the Group to the directors as compensation for loss of office or an inducement to join or upon joining the Group. None of the directors has waived any emoluments in both years.

9. DIRECTORS' EMOLUMENTS AND EMPLOYEE'S EMOLUMENTS (Cont'd)

Employee's emoluments

Of the five individuals with the highest emoluments in the Group, two (2008: two) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining three (2008: three) individuals were as follows:

	2009 HK$'000	2008 HK$'000
Salaries and other benefits	3,968	4,358
Retirement benefits scheme contributions	36	36
Performance related incentive payments	2,602	825
	6,606	5,219

Their emoluments were within the following bands:

	2009 No. of employees	2008 No. of employees
HK$1,500,001 to HK$2,000,000	1	3
HK$2,000,001 to HK$2,500,000	2	–
	3	3

10. INCOME TAX EXPENSE

	2009 HK$'000	2008 HK$'000
Current tax charge:		
Hong Kong	6,080	1,546
PRC	19,212	25,134
Other jurisdictions	4,033	33,721
(Over)underprovision in prior years:		
Hong Kong	–	13,971
PRC	(4,872)	(1,116)
Other jurisdictions	1,100	(137)
	25,553	73,119
Deferred taxation *(note 34)*:		
Current year	9,747	(22,184)
Attributable to a change in tax rate	(293)	(32,384)
	9,454	(54,568)
	35,007	18,551

10. INCOME TAX EXPENSE (Cont'd)

The IRD initiated a tax audit on certain group companies for the years of assessment from 1999/2000 onwards. As a matter of the IRD's practice, the IRD has issued estimated additional assessments to these group companies for the years of assessment 1999/2000, 2000/2001, 2001/2002, 2002/2003 and 2003/2004. During the course of the tax audit, there may be a possibility that estimated additional assessments for subsequent years be issued by the IRD to these group companies.

Up to 31 December 2009, the Group has purchased tax reserve certificates of approximately HK$60,570,000 (31/12/2008: HK$48,476,000) for conditional standover order of objection against the notices of estimated additional assessment for the years of assessment 1999/2000, 2000/2001, 2001/2002 and 2002/2003 and the amount is included in tax recoverable.

Since the tax audit is still at a fact-finding stage with different views being exchanged with the IRD, the outcome of the tax audit cannot be readily ascertained with any degree of accuracy. The management has in the current year followed the same basis for making provision as adopted in prior years. In the opinion of the directors, the provisions so made are adequate for the purpose mentioned above.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards, except for High Fashion (China) Co., Ltd. and High Fashion Silk (Zhejiang) Co., Ltd..

High Fashion (China) Co., Ltd. and High Fashion Silk (Zhejiang) Co., Ltd. have been recognised as advanced technology enterprises in the PRC in 2008 and 2009, respectively. They are subject to an income tax rate of 15% for three years starting from the year being recognised as advanced technology enterprises.

For the year ended 31 December 2008 and 2009, certain PRC subsidiaries were subject to income tax rate of 12.5% pursuant to the relevant laws and regulations in the PRC.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

10. INCOME TAX EXPENSE (Cont'd)

The income tax expense for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	2009 HK$'000	2008 HK$'000
Profit before taxation	**192,457**	96,904
Tax at the income tax rate of 16.5%	**31,755**	15,989
Effect of different tax rates of subsidiaries operating in other jurisdictions	**244**	(695)
Effect of tax exemptions granted to PRC subsidiaries	**–**	(1,465)
Tax effect of share of results of jointly controlled entities	**124**	35
Tax effect of income not taxable for tax purpose	**(12,949)**	(5,894)
Tax effect of expenses not deductible for tax purpose	**16,675**	13,758
Tax effect of tax losses not recognised	**5,603**	19,727
Withholding tax on undistributed earnings of subsidiaries *(Note 34)*	**3,585**	2,158
Utilisation of tax losses previously not recognised	**(5,652)**	(5,484)
(Over)underprovision in prior years	**(3,772)**	12,718
Effect on deferred taxation resulting from a change in tax rate	**(293)**	(32,384)
Others	**(313)**	88
Income tax expense	**35,007**	18,551

11. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

	2009 HK$'000	2008 HK$'000
Cost of inventories recognised as expenses	1,543,561	1,903,710
Depreciation and amortisation		
Owned assets	97,826	80,868
Leased assets	295	332
Amortisation of trademarks (included in selling and distribution expenses)	687	1,690
Amortisation of prepaid lease payments	1,372	2,692
	100,180	85,582
Allowance for inventory obsolescence (included in cost of sales)	199	4,444
Auditor's remuneration	4,832	4,435
Minimum lease payments in respect of land and buildings	39,634	48,317
Contingent rental expenses *(Note (i))*	28,013	36,268
Staff costs (including directors' emoluments)		
Wages, salaries and bonuses	318,094	364,507
Retirement benefits scheme contributions	6,090	10,244
	324,184	374,751
Gain on derivative financial instruments reclassified from other comprehensive income (included in cost of sales)	(76,356)	(65,327)
Loss on derivative financial instruments reclassified from other comprehensive income (included in finance costs)	–	2,317
Gross rental income from investment properties	(11,445)	(10,164)
Less: Outgoings for investment properties rented out	1,685	1,415
Net rental income	(9,760)	(8,749)
Sub-letting rental income (included in selling and distribution expenses)	–	(837)
Government grants (included in other income) *(Note (ii))*	(13,465)	(3,321)
Investment income earned on loans and receivables		
– bank interest income	(15,403)	(31,088)
– interest income on other receivables	(394)	(6,184)
	(15,797)	(37,272)
Investment income earned on derivative financial instruments		
– income from cross currency and interest rate swaps	(5,282)	(16,287)
– interest income from structured deposits	(8,528)	(5,503)
	(13,810)	(21,790)

11. PROFIT FOR THE YEAR (Cont'd)

Notes:

(i) The contingent rental expenses are determined based on a certain percentage of the gross sales of the relevant shops when the sales meet certain specified level.

(ii) The amounts represent subsidies received from Hangzhou government for the purposes of encouraging the Group to expand its business in Hangzhou. There are no conditions attached to the subsidies granted to the Group and the grants are not related to capital expenditures.

11A. OTHER COMPREHENSIVE INCOME (EXPENSE)

Other comprehensive income (expense) includes:

	2009 HK$'000	2008 HK$'000
Exchange differences arising on translating foreign operations:		
Exchange differences arising during the year	(2,282)	81,717
Reclassification adjustments relating to foreign operations disposed of during the year	6,287	–
	4,005	81,717
Cash flow hedges:		
Gain (loss) on fair value changes on cash flow hedges	10,915	(124,209)
Reclassification adjustments to profit or loss	(77,457)	(92,783)
	(66,542)	(216,992)
Gain on revaluation of properties	39,577	11,700
Share of other comprehensive income of jointly controlled entities	1	1,078
	39,578	12,778
Other comprehensive income (expense)	(22,959)	(122,497)
Income tax relating to components of other comprehensive income:		
– revaluation of properties	(7,641)	(1,930)
– fair value changes on cash flow hedge	12,599	39,210
– effect of change in tax rate	–	117
Other comprehensive income (expense) for the year, net of tax	(18,001)	(85,100)

12. DIVIDENDS

	2009 HK$'000	2008 HK$'000
Dividend recognised as distribution and paid during the year:		
Interim dividend – 3 HK cents (2008: 3 HK cents) per ordinary share	9,458	9,706
Final dividend – 3 HK cents (2008: 5 HK cents) per ordinary share	9,516	16,367
2008 special final dividend – 10 HK cents per ordinary share	–	32,733
	18,974	58,806

The final dividend of 5 HK cents (2008: 3 HK cents) and special dividend of 8 HK cents (2008: Nil) per ordinary share has been proposed by the directors and is subject to the approval by the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company are based on the following data:

	2009 HK$'000	2008 HK$'000
Profit for the purpose of basic and diluted earnings per share attributable to owners of the Company	165,507	90,635

	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	315,921,461	325,613,918

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings (Hong Kong)	Buildings (elsewhere)	Construction in progress	Leasehold improvements	Plant and equipment	Furniture and fixtures	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST								
At 1 January 2008	18,158	320,918	216,053	22,736	339,120	126,767	29,911	1,073,663
Additions	–	13,419	187,803	3,111	11,799	27,293	2,979	246,404
Transfers	–	223,491	(375,088)	50,958	96,566	4,073	–	–
Disposals	–	–	–	(6,660)	(14,079)	(10,550)	(2,671)	(33,960)
Transfer to investment properties	(3,569)	–	–	–	–	–	–	(3,569)
Exchange realignment	–	16,583	2,955	1,614	17,339	3,302	289	42,082
At 31 December 2008	14,589	574,411	31,723	71,759	450,745	150,885	30,508	1,324,620
Additions	–	2,077	62,431	19,176	16,096	13,804	2,060	115,644
Transfers	–	8,634	(85,082)	54,468	18,199	3,781	–	–
Disposals	–	(36,941)	–	(6,010)	(8,236)	(10,769)	(3,340)	(65,296)
Disposal of subsidiaries *(note 39)*	–	–	–	–	(5,091)	(13,070)	(177)	(18,338)
Transfer to investment properties	(703)	(23,475)	–	–	–	–	–	(24,178)
Exchange realignment	–	–	10	200	281	471	147	1,109
At 31 December 2009	**13,886**	**524,706**	**9,082**	**139,593**	**471,994**	**145,102**	**29,198**	**1,333,561**
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At 1 January 2008	5,168	46,144	–	13,874	170,898	84,433	20,135	340,652
Provided for the year	310	18,021	–	3,841	32,019	22,724	4,285	81,200
Eliminated on disposals	–	–	–	(6,660)	(10,829)	(9,348)	(2,059)	(28,896)
Impairment loss recognised in profit or loss	–	–	–	–	10,418	–	–	10,418
Transfer to investment properties	(1,494)	–	–	–	–	–	–	(1,494)
Exchange realignment	–	2,381	–	165	6,305	2,149	513	11,513
At 31 December 2008	3,984	66,546	–	11,220	208,811	99,958	22,874	413,393
Provided for the year	291	11,358	–	23,343	42,148	17,765	3,216	98,121
Eliminated on disposals	–	(19,927)	–	(3,323)	(6,354)	(7,518)	(3,051)	(40,173)
Impairment loss recognised in profit or loss	–	–	–	–	10,540	10,460	–	21,000
Disposal of subsidiaries *(note 39)*	–	–	–	–	(5,056)	(11,533)	(101)	(16,690)
Transfer to investment properties	(320)	(1,390)	–	–	–	–	–	(1,710)
Exchange realignment	–	–	–	74	239	374	78	765
At 31 December 2009	**3,955**	**56,587**	**–**	**31,314**	**250,328**	**109,506**	**23,016**	**474,706**
CARRYING VALUES								
At 31 December 2009	**9,931**	**468,119**	**9,082**	**108,279**	**221,666**	**35,596**	**6,182**	**858,855**
At 31 December 2008	10,605	507,865	31,723	60,539	241,934	50,927	7,634	911,227
At 1 January 2008	12,990	274,774	216,053	8,862	168,222	42,334	9,776	733,011

14. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

	31/12/2009 HK$'000	31/12/2008 HK$'000
Buildings in Hong Kong:		
Medium-term leases	**9,931**	10,605
Buildings outside Hong Kong:		
Long leases	**–**	22,474
Medium-term leases	**468,119**	485,391
	468,119	507,865
	478,050	518,470

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis at the following rates per annum:

Buildings	2% to 5%
Leasehold improvements	The shorter of lease terms and 5 years
Plant and equipment	9% to 20%
Furniture and fixtures	9% to 25%
Motor vehicles	9% to 25%

The carrying value of the motor vehicles includes an amount of HK$1,095,000 (31/12/2008: HK$615,000) in respect of assets held under finance leases.

At the end of each reporting period, the directors of the Company conduct a review of the Group's manufacturing assets and office premises and determine that a number of assets were impaired. During the year, the Group relocated certain of its manufacturing plants and therefore, an impairment loss of HK$10,540,000 (31/12/2008: nil) was recognised in respect of plant and equipment. In addition, an impairment loss of HK$10,460,000 (31/12/2008: nil) was recognised to write down certain furniture and fixtures to their recoverable amount when the Group decided to lease certain of its office premises to outsiders.

Due to technical obsolescence, an impairment loss of HK$10,418,000 had been recognised in respect of plant and equipment during the year ended 31 December 2008.

15. PREPAID LEASE PAYMENTS AND DEPOSITS FOR LAND USE RIGHTS

	31/12/2009 HK$'000	31/12/2008 HK$'000	1/1/2008 HK$'000
The Group's prepaid lease payments comprise:			
Medium-term leasehold land in Hong Kong	**3,987**	4,282	5,383
Medium-term leasehold land outside Hong Kong	**68,298**	39,389	37,391
Long leases land outside Hong Kong	**–**	36,281	34,874
	72,285	79,952	77,648
Analysed for reporting purposes as:			
Non-current asset	**71,013**	78,443	76,207
Current asset	**1,272**	1,509	1,441
	72,285	79,952	77,648

Deposits paid for land use rights are deposits for two pieces (31/12/2008: one piece) of land located in the PRC. At the end of the reporting period, the Group is still in the progress of obtaining the land use rights.

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2008	85,920
Transfer from property, plant and equipment and prepaid lease payments	14,760
Increase in fair value recognised in profit or loss	2,020
At 31 December 2008	102,700
Transfer from property, plant and equipment and prepaid lease payments	104,241
Increase in fair value recognised in profit or loss	4,627
At 31 December 2009	**211,568**

16. INVESTMENT PROPERTIES (Cont'd)

The carrying value of investment properties shown above comprises:

	31/12/2009 HK$'000	31/12/2008 HK$'000
Land in Hong Kong under medium lease	117,000	102,700
Land outside Hong Kong under long leases	94,568	–
	211,568	102,700

The fair value of the Group's investment properties at 31 December 2009 and 2008 have been arrived at on the basis of a valuation carried out by Centaline Surveyors Limited, independent qualified professional valuers not connected with the Group. Centaline Surveyors Limited. are members of the Institute of Valuers. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The Group is considering the revitalising the existing industrial building in Hong Kong to convert to non-industrial use as permitted by a scheme recently announced by the Government.

17. GOODWILL

	HK$'000
COST LESS IMPAIRMENT	
At 1 January 2008	23,808
Arising on acquisition of additional interest in Theme International Holdings Limited ("Theme")	6,207
Impairment loss recognised in profit or loss	(1,800)
At 31 December 2008	28,215
Impairment loss recognised in profit or loss	(28,215)
At 31 December 2009	**–**

During the year ended 31 December 2008, the Group acquired additional interests of 6.91% in Theme, which resulting in a goodwill of HK$6,207,000.

Particulars regarding impairment testing on goodwill are disclosed in note 19 below.

18. INTANGIBLE ASSETS

	Trademarks
	HK$'000
COST	
At 1 January 2008	16,917
Exchange realignment	(44)
At 31 December 2008 and 2009	16,873
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2008	5,823
Provided for the year	1,690
Impairment loss recognised in the year (Note)	7,500
Exchange realignment	(30)
At 31 December 2008	14,983
Provided for the year	687
At 31 December 2009	15,670
CARRYING VALUES	
At 31 December 2009	1,203
At 31 December 2008	1,890
At 1 January 2008	11,094

Note: During the year ended 31 December 2008, the directors assessed the recoverable amount of the trademarks and recognised an impairment of HK$7,500,000 in respect of trademark of CSLR. Particulars regarding impairment testing on this trademark are disclosed in note 19 below.

The trademarks are amortised over 10 years.

19. IMPAIRMENT TESTING ON GOODWILL AND TRADEMARKS

For the purposes of impairment testing, goodwill and certain trademarks set out in notes 17 and 18 have been allocated to two identifiable retail business lines which are categorised by the management of the Company as "TIHL" and "CSLR". The carrying amounts of goodwill and trademarks (net of impairment losses) at the end of the reporting period allocated to these cash generating units are as follows:

	Goodwill			Trademarks		
	31/12/2009 HK$'000	31/12/2008 HK$'000	1/1/2008 HK$'000	**31/12/2009 HK$'000**	31/12/2008 HK$'000	1/1/2008 HK$'000
TIHL	**–**	28,215	22,008	**–**	–	–
CSLR	**–**	–	1,800	**–**	–	8,500
	–	28,215	23,808	**–**	–	8,500

TIHL:

The recoverable amount is determined based on value-in-use calculations. For the purpose of assessing impairment, these calculations use cash flow projections based on five years financial budgets approved by the management.

CSLR:

For the year ended 31 December 2008, the recoverable amount was determined based on value-in-use calculations. For the purpose of assessing impairment, these calculations used cash flow projections based on financial budgets approved by the management covering a five-year period with growth rate used to extrapolate cash flow projections beyond the period covered by budgets for 5 years ranging from 0% to 2% per annum.

Key assumptions used in value-in-use calculations for the cash generating units of TIHL and CSLR include: (i) gross margin ranging from 50% to 70% (2008: 50% to 70%) per annum; and (ii) discount rate of 13% (2008: 13%) for TIHL and 12% for CSLR for the year ended 31 December 2008 per annum. Expected cash flow projections, which include budgeted sales, gross margin and raw material price inflation and other direct expenses have been determined based on past performance and the expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of goodwill exceed its recoverable amount.

During the year ended 31 December 2009, the carrying amount of goodwill in respect of TIHL amounting to HK$28,215,000 has been fully impaired as the estimated recoverable amount of the goodwill is less than its carrying amount.

During the year ended 31 December 2008, the carrying amounts of goodwill and trademarks in respect of CSLR amounting to HK$7,500,000 and HK$1,800,000 respectively had been fully impaired.

20. INVESTMENTS IN ASSOCIATES

	31/12/2009 HK$'000	31/12/2008 HK$'000	1/1/2008 HK$'000
Cost of investments in associates, unlisted	2,000	2,000	2,000
Share of post-acquisition losses	(2,000)	(2,000)	(2,000)
	–	–	–

Details of the Group's associates at 31 December 2009 and 2008 are set out as follows:

Name of entity	Form of business structure	Place of incorporation or registration/ operation	Proportion of nominal value of issued share capital/registered capital held by the Group		Principal activities
			2009 %	2008 %	
Sherman – Theme (China) Limited	Incorporated	Hong Kong	50	50	Investment holding

The above table lists the associates of the Group which, in the opinion of the directors of the Company, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors of the Company result in particulars of excessive length.

The summarised financial information in respect of the Group's associates is set out below:

	31/12/2009 HK$'000	31/12/2008 HK$'000
Total assets	–	–
Total liabilities	(1,380)	(1,379)
Net liabilities	(1,380)	(1,379)
Group's share of net assets of associates	–	–
Revenue	–	–
Loss for the year	(1)	(1)
Group's share of results of associates for the year	–	–

The Group has discontinued recognition of its share of losses of associates.

21. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	31/12/2009 HK$'000	31/12/2008 HK$'000	1/1/2008 HK$'000
Cost of unlisted investments in jointly controlled entities	9,982	9,472	11,467
Share of post-acquisition profits	6,732	7,485	6,243
Share of exchange reserve	2,906	2,905	1,827
	19,620	19,862	19,537

As at 31 December 2009 and 2008, the Group had interests in the following jointly controlled entities:

Name	Form of business structure	Place of incorporation or registration and operations	Percentage of Ownership interest		Voting power		Profit sharing		Principal activities
			2009 %	2008 %	2009 %	2008 %	2009 %	2008 %	
Hangzhou Dalifu Silk Finishing Co., Ltd.	Incorporated	PRC	51	51	50	50	51	51	Dyeing, printing and sandwashing of fabric
Suzhou High Fashion Garment Co., Ltd. ("Suzhou High Fashion") *(Note i)*	Incorporated	PRC	51	51	60	60	51	51	Garment manufacturing
The Silk Passion Company Limited ("Silk Passion") *(Note i)*	Incorporated	Hong Kong	51	–	60	–	51	–	Trading, marketing and promoting silk products
Flaming China Limited *(Note ii)*	Incorporated	Hong Kong	50	31.6	50	50	50	31.6	Retailing of garments

Notes:

(i) The Group holds 51% of the registered capital of Suzhou High Fashion and Silk Passion. However, under the terms of memorandum and articles of association of Suzhou High Fashion and joint venture agreement of Silk Passion, all significant events must require unanimous consent by the Group and the other significant shareholder. Therefore, Suzhou High Fashion and Silk Passion are classified as jointly controlled entities of the Group.

(ii) The Group holds 50.0% (2008: 31.6%) effective interests and controls 50% (2008: 50%) voting power at general meetings of Flaming China Limited through its 100% (2008: 63.18%) interest in Theme International Holdings (B.V.I.) Limited ("Theme BVI").

21. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (Cont'd)

The summarised financial information in respect of the Group's jointly controlled entities which are accounted for using the equity method is set out below:

	31/12/2009 HK$'000	31/12/2008 HK$'000
Current assets	54,218	58,643
Non-current assets	18,641	20,853
Current liabilities	34,389	40,551
Group's share of net assets of jointly controlled entities	19,620	19,862
Income recognised in profit or loss	72,997	72,512
Expenses recognised in profit or loss	74,473	72,922
Group's share of results of jointly controlled entities for the year	(753)	(209)

22. LONG-TERM RECEIVABLES

During the year, a subsidiary of the Group was requested by 杭州市拱墅區城中村改造工程指揮部 to surrender a piece of land in Hangzhou to an independent third party for a cash consideration of HK$70,696,000. The Group received HK$7,070,000 during the year and the remaining balances of HK$31,813,000 and HK$31,813,000 will be settled in April 2010 and January 2011 respectively.

23. INVENTORIES

	31/12/2009 HK$'000	31/12/2008 HK$'000	1/1/2008 HK$'000
Raw materials	112,907	112,888	132,295
Work in progress	111,422	111,807	140,412
Finished goods	109,635	147,120	135,049
	333,964	371,815	407,756

24. TRADE RECEIVABLES AND BILLS RECEIVABLE

	31/12/2009 HK$'000	31/12/2008 HK$'000	1/1/2008 HK$'000
Trade receivables	**367,326**	371,419	417,766
Less: Allowance for doubtful debts	**(74,490)**	(74,502)	(89,335)
	292,836	296,917	328,431

The credit terms granted by the Group to its customers normally range from 30 days to 90 days.

The aged analysis of the Group's trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period is as follows:

	31/12/2009 HK$'000	31/12/2008 HK$'000	1/1/2008 HK$'000
Within 90 days	**284,470**	269,471	310,871
91 to 180 days	**6,203**	22,218	12,109
181 to 360 days	**1,780**	4,218	4,491
Over 360 days	**383**	1,010	960
	292,836	296,917	328,431

The Group has policy of making allowance for bad and doubtful debts which is based on the evaluation of collectibility and age of accounts and on management's judgement including credit worthiness and past collection history of each customer. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributed to customers are reviewed twice a year.

At the end of the reporting period, trade receivables with an aggregate carrying amount of HK$266,926,000 (31/12/2008: HK$198,522,000) which are neither past due nor impaired for which the management considers these amounts are of good credit quality.

Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of HK$25,910,000 (31/12/2008: HK$98,395,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as these trade receivables are either settled subsequent to the end of the reporting period or the respective customers have good repayment history. Accordingly, the directors of the Company believe that there is no further provision required in excess of the allowance of doubtful debts as at the end of the reporting period. The average age of these receivables is 64 days (31/12/2008: 63 days).

24. TRADE RECEIVABLES AND BILLS RECEIVABLE (Cont'd)

Ageing of trade receivables which are past due but not impaired:

	31/12/2009 HK$'000	31/12/2008 HK$'000
Within 90 days	**18,275**	71,058
91 – 180 days	**5,472**	22,109
181 – 360 days	**1,780**	4,218
Over 360 days	**383**	1,010
Total	**25,910**	98,395

Movement in the allowance for doubtful debts

	31/12/2009 HK$'000	31/12/2008 HK$'000
Balance at beginning of the year	**74,502**	89,335
Exchange adjustment	**35**	(224)
Impairment loss recognised on receivables *(Note i)*	**5,716**	12,042
Amounts written off as uncollectible *(Note ii)*	**(4,515)**	(25,841)
Amounts recovered during the year	**(791)**	(810)
Disposal of subsidiaries	**(457)**	–
Balance at end of the year	**74,490**	74,502

Notes:

(i) The impairment loss recognised on receivables are individually trade receivables that are past due at the end of the reporting date and the Group believes that those amounts are unlikely to be recoverable based on past collection history and credit worthiness of each customer. The Group does not have any collateral over these balances.

(ii) The amounts written off as uncollectible are individually impaired trade receivable which are in severe financial difficulties.

At the end of the reporting period, bills receivable of HK$41,124,000 (31/12/2008: HK$71,447,000) are aged within 90 days and the remaining amount of HK$22,744,000 (31/12/2008: nil) are aged between 91 days and 180 days. Included in the bills receivable are approximately HK$37,445,000 (31/12/2008: HK$16,364,000) discounted bills with recourse, the respective bank borrowings were set out in note 33.

25. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Around RMB177 million (equivalent to approximately HK$201 million) (31/12/2008: RMB148 million (equivalent to approximately HK$170 million)) included in deposits, prepayments and other receivables were sales proceeds from disposal of property, plant and equipment and prepaid lease payment which have not yet been received at the end of the reporting period. In March 2010, the Group received RMB120 million (equivalent to approximately HK$136 million) out of RMB177 million. The directors of the Company consider the remaining balance of RMB57 million (equivalent to approximately HK$65 million) is recoverable within 1 year and is therefore classified as current asset.

In addition, included in deposits, prepayments and other receivables were loan receivables of approximately nil (31/12/2008: HK$114 million) which represented loans to two independent third parties through two banks in the PRC and the terms of loans were set out below. The amounts have been settled during the year.

			Carrying amounts as at		
Principal amounts	**Maturity date**	**Terms**	**31/12/2009 HK$'000**	31/12/2008 HK$'000	1/1/2008 HK$'000
RMB50,000,000	6 January 2009	Fixed interest at 6.2% per annum	–	56,818	53,763
RMB50,000,000	2 February 2009	Fixed interest at 5.8% per annum	–	56,818	–
			–	113,636	53,763

26. AMOUNTS DUE FROM AND TO JOINTLY CONTROLLED ENTITIES

The amounts due from and to jointly controlled entities are unsecured, interest-free and are repayable on demand. Included in amounts due to jointly controlled entities are approximately HK$4,637,000 (31/12/2008: HK$7,917,000) payables for purchases of raw materials and finished goods and aged within 90 days.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	31/12/2009 HK$'000	31/12/2008 HK$'000	1/1/2008 HK$'000
Financial assets			
Derivatives under cash flow hedges			
– Foreign exchange forward contracts	37,272	98,862	317,254
Financial liabilities			
Derivatives under cash flow hedges			
– Interest rate swaps	769	–	1,400
– Foreign exchange forward contracts	4,444	–	–
	5,213	–	1,400
Other derivatives (not under hedge accounting)			
– Cross currency and interest rate swap	–	6,916	10,284
– Cross currency swap	–	3,599	7,222
– Interest rate swaps	9,177	12,651	–
	9,177	23,166	17,506
	14,390	23,166	18,906
Analysed for reporting purposes as:			
Non-current assets	2,422	22,239	252,572
Current assets	34,850	76,623	64,682
	37,272	98,862	317,254
Non-current liabilities	4,181	–	1,400
Current liabilities	10,209	23,166	17,506
	14,390	23,166	18,906

27. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

Cash flow hedges

Foreign exchange forward contracts:

At the end of the reporting period, the Group has foreign exchange forward contracts designated as highly effective hedging instruments in order to manage the Group's foreign currency exposure in relation to foreign currency forecast sales. The Group requires its PRC subsidiaries (the functional currency of which is RMB) to use foreign exchange forward contracts to hedge its foreign currency exposure on forecast sales in HK$ to group entities of which the sales to end customers are denominated in United States Dollars ("USD"). As HK$ is pegged with USD, the exposures between HK$ and USD are not hedged. The management considers the hedges made by the PRC subsidiaries are highly effective and at the Group level, the hedges are effectively hedging its cost of sales which are mainly denominated in RMB affected by the movements of RMB relative to the sales to end customers, which are mainly denominated in USD.

At the end of the reporting period, the Group has outstanding foreign exchange forward contracts with an aggregate notional amount of HK$2,126 million (31/12/2008: HK$1,250 million) that requires the Group to sell HK$ for RMB at exchange rates ranging from RMB0.8471 to RMB0.9564 (31/12/2008: RMB0.9415 to RMB0.9717) for HK$1 with maturity periods up to 24 months (31/12/2008: 16 months). The terms of the foreign exchange forward contracts have been negotiated to match the terms of the forecast sales.

As at 31 December 2009, the cumulative net fair value gain of approximately HK$32,828,000 (31/12/2008: HK$97,950,000) recognised in other comprehensive income and accumulated in hedging reserve is expected to be released to the profit or loss at various dates from January 2010 to December 2011 (31/12/2008: from January 2009 to April 2010), the period in which the forecast sales are expected to take place. Included in the net gain was a cumulative loss of HK$4,444,000 (31/12/2008: a gain of HK$22,019,000) that is expected to be reclassified to profit or loss in more than twelve months after the end of the reporting period.

During the year, the Group reduced the amount of hedges in respect of intragroup forecast sales after considering the impact of the financial market conditions after the third quarter of 2008. During the year, intragroup forecast sales of approximately HK$50 million (2008: HK$666 million) are no longer expected to occur. Accordingly, the Group had reclassified gains on foreign exchange forward contracts relating to forecast intragroup sales that are no longer expected to occur from the hedging reserve of HK$1,101,000 (31/12/2008: HK$29,773,000) into the profit or loss during the year (included in other gains and losses). The respective foreign exchange forward contracts have been terminated accordingly.

The effective portion of cash flow hedges on foreign currency forward contracts amounting to HK$76,356,000 (31/12/2008: HK$65,327,000) is reclassified from other comprehensive income upon occurrence of the sales to end customers which affected the profit or loss and deducted from cost of sales in the profit or loss.

27. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

Cash flow hedges (Cont'd)

Interest rate swaps:

The Group uses interest rate swaps to manage its exposure to volatility in interest payments relating to certain floating rate long-term bank borrowings. The floating-to-fixed interest rate swaps locked the interest rates ranging from 0.42% to 0.69% (31/12/2008: 2.9% to 4.1%) per annum. The interest rate swaps match the major terms of the hedged underlying bank borrowings such that the management considers that the interest rate swaps are highly effective hedging instruments.

As at 31 December 2009, the fair value loss of HK$769,000 (2008: nil) of interest rate swap contracts has been recognised in other comprehensive income and accumulated in hedging reserve. The aggregate notional amount of interest rate swaps contracts are HK$400,000,000 and will mature within one year after the end of the reporting period.

During the year ended 31 December 2008, the Group revoked the hedging relationship by early repaying the hedged long-term bank borrowings without terminating the respective interest rate swaps contracts. As of the dates when the hedging relationship was terminated, the Group had reclassified losses on interest rate swaps contracts of approximately HK$2,317,000 from the hedging reserve to profit or loss and recognised the subsequent change in fair value in the profit or loss.

Other derivatives (not under hedge accounting)

Cross currency and interest rate swap:

The amount represented fair value of cross currency and interest rate swap contracts, the swaps will be settled on a net basis. The Group shall settle the difference between USD13,000,000 and RMB96,905,000 on 30 April 2009. During the period from the inception date to the maturity date of the contracts, the Group received interest on the notional amount of USD13,000,000 at LIBOR plus 0.75% per annum and paid interest at a fixed rate of 1.7% per annum on the notional amount of USD13,000,000.

During the year ended 31 December 2009, a fair value loss of approximately HK$2,335,000 (31/12/2008: a gain of HK$3,368,000) has been recognised in the profit or loss.

Cross currency swap:

The amount represented fair value of non deliverable cross currency swap contracts. The Group shall exchange USD20,000,000 for RMB148,436,000 on 23 November 2009. During the period from the inception date to the maturity date of the contract, the Group received interest at LIBOR plus 2.5% per annum on notional amount of USD20,000,000.

During the year ended 31 December 2009, a fair value loss of approximately HK$9,895,000 (31/12/2008: a gain of HK$3,623,000) has been recognised in the profit or loss.

27. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

Other derivatives (not under hedge accounting) (Cont'd)

Interest rate swaps:

The amount represents fair value of interest rate swap contracts.

The major terms of interest rate swaps are as follows:

Notional amount	Maturity date	Swaps
HK$150,000,000	1 November 2009	From Hong Kong Interbank Offer Rate ("HIBOR") to 2.9% per annum
HK$100,000,000	24 October 2011	From HIBOR to 4.1% per annum
HK$50,000,000	27 October 2011	From HIBOR to 4.05% per annum

As at 31 December 2009, a fair value gain of approximately HK$3,474,000 (31/12/2008: a loss of HK$12,651,000) has been recognised in the profit or loss.

The above derivatives are measured at fair value at end of the reporting period. Their fair values are determined based on the valuation carried out by financial institutions, which is measured using the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and quoted forward exchange rates at the end of the reporting period.

28. STRUCTURED DEPOSITS

The structured deposits are placed with banks in the PRC and contain embedded derivatives, the returns of which are determined by reference to the change in certain exchange rates or interest rates quoted in the market. The structured deposits are designated as FVTPL at initial recognition.

Major terms of the structured deposits at the end of the reporting period are as follows:

Principal amount	Maturity *(Note a)*	Annual coupon rate	*Notes*
RMB50,000,000	1 February 2010	2.75% or 0%	*(b)*
RMB15,000,000	1 June 2010	6.00% or 3.50% or 2.25%	*(c)*
RMB45,000,000	2 July 2010	6.00% or 3.65% or 2.25%	*(c)*
RMB44,000,000	13 July 2010	6.00% or 3.65% or 2.25%	*(c)*
RMB45,000,000	30 July 2010	6.00% or 3.65% or 2.25%	*(c)*
RMB45,000,000	19 December 2010	6.00% or 3.70% or 2.00%	*(c)*

28. STRUCTURED DEPOSITS (Cont'd)

Notes:

(a) Subject to the option for early termination by issuing banks.

(b) The annual coupon rate is dependent on whether the USD 3 months London Inter Bank Offered Rate ("LIBOR") falls within 0% to 8% during the period from inception date to maturity date.

(c) The annual coupon rate is dependent on whether the spot rate for conversion of European dollar for USD as prevailing in the international foreign exchange market falls within ranges as specified in the relevant agreements during the period from inception date to maturity date of the relevant agreements.

At the end of the reporting period, the structured deposits are stated at fair values based on valuation provided by respective counterparties. The fair values are calculated using discounted cash flow analyses based on the applicable yield curves of relevant interest rates and exchange rates.

29. SHORT-TERM DEPOSITS AND BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.01% to 0.36% (31/12/2008: 0.2% to 0.4%) per annum. The short-term deposits carry fixed interest ranging from 1.35% to 4.67% (31/12/2008: 4.14% to 4.67%) per annum.

Bank balances are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired. Short-term deposits are deposits with banks with more than three months to maturity when acquired. Both bank balances and short-term deposits are matured within 12 months from the end of the reporting period and are therefore classified as current assets.

30. TRADE PAYABLES AND BILLS PAYABLE

The following is an aged analysis of the trade payables presented based on the invoice date at the end of the reporting period:

	31/12/2009 HK$'000	31/12/2008 HK$'000	1/1/2008 HK$'000
Within 90 days	117,081	137,792	172,309
91 to 180 days	8,744	6,963	5,880
181 to 360 days	11,529	6,759	12,341
Over 360 days	4,714	18,599	12,997
	142,068	170,113	203,527
Accrued purchases	109,655	93,452	92,550
	251,723	263,565	296,077

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

All bills payable are aged within 90 days.

31. AMOUNT DUE TO AN ASSOCIATE

The amount due to an associate is unsecured, interest-free and is repayable on demand.

32. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments			Present value of minimum lease payments		
	31/12/2009	31/12/2008	1/1/2008	**31/12/2009**	31/12/2008	1/1/2008
	HK$'000	HK$'000	HK$'000	**HK$'000**	HK$'000	HK$'000
Amounts payable under finance leases:						
Within one year	**344**	92	369	**297**	88	337
In the second year	**239**	92	126	**210**	81	118
In the third to fifth year inclusive	**228**	–	127	**201**	–	113
	811	184	622	**708**	169	568
Less: Future finance charges	**(103)**	(15)	(54)	**–**	–	–
Present value of lease obligations	**708**	169	568	**708**	169	568
Less: Amount due for settlement within twelve months (shown under current liabilities)				**(297)**	(88)	(337)
Amount due for settlement after twelve months (shown under non-current liabilities)				**411**	81	231

The Group leases certain of its motor vehicles under finance lease. The average lease term is five (31/12/2008: two) years. For the year ended 31 December 2009, the average effective borrowing rate was 13.6% (31/12/2008: 8.9%) per annum. Interest rates are fixed at the contract date.

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessors' charge over the leased assets.

33. BANK BORROWINGS AND BANK OVERDRAFTS

	31/12/2009 HK$'000	31/12/2008 HK$'000	1/1/2008 HK$'000
Trust receipt loans	908	1,149	3,848
Bank loans	989,446	1,183,429	853,319
	990,354	1,184,578	857,167
Analysed as:			
Secured	87,500	74,891	35,309
Unsecured	902,854	1,109,687	821,858
	990,354	1,184,578	857,167
Carrying amount repayable:			
Within one year	908,354	1,007,578	374,167
More than one year, but not exceeding two years	82,000	157,000	389,000
More than two years, but not exceeding five years	–	20,000	94,000
	990,354	1,184,578	857,167
Less: Amounts due within one year shown under current liabilities	(908,354)	(1,007,578)	(374,167)
Amounts due after one year shown under non-current liabilities	82,000	177,000	483,000

The Group's bank overdrafts and bank borrowings carry variable interest rates ranging from 0.95% to 5.35% (31/12/2008: 1.30% to 5.65%) per annum.

At 31 December 2009, the Group undertakes to the banks that structured deposits of HK$154,179,000 (31/12/2008: HK$164,253,000), short-term deposits of HK$250,963,000 (31/12/2008: HK$172,159,000) and bank balances of nil (31/12/2008: HK$81,961,000) are maintained with respective banks during the life of certain bank loans.

34. DEFERRED TAXATION

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior years:

	Deferred tax assets							
	Unrealised profit arising on intra-group transactions	Bad and doubtful debts	Allowance on obsolete inventories	Unrealised exchange losses	Tax losses	Impairment loss on property, plant and equipment	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2008	405	784	1,686	516	2,956	–	–	6,347
Credit (charge) to profit or loss	438	97	312	(263)	(204)	1,562	–	1,942
Reversal upon recognition of impairment loss on intangible assets	–	–	–	–	(1,532)	–	–	(1,532)
Exchange realignment	–	3	11	3	(103)	–	–	(86)
Effect of change in tax rate dealt with in profit or loss	(23)	67	386	–	–	–	–	430
At 31 December 2008	820	951	2,395	256	1,117	1,562	–	7,101
(Charge) credit to profit or loss	(503)	1,073	349	–	(165)	2,635	58	3,447
Disposal of subsidiaries *(note 39)*	–	(98)	(473)	(256)	(947)	–	–	(1,774)
Exchange realignment	–	1	1	–	(5)	–	–	(3)
Effect of change in tax rate dealt with in profit or loss	–	134	(720)	–	–	879	–	293
At 31 December 2009	**317**	**2,061**	**1,552**	**–**	**–**	**5,076**	**58**	**9,064**

34. DEFERRED TAXATION (Cont'd)

	Deferred tax liabilities									
	Accelerated tax depreciation	Revaluation of investment properties	Revaluation of property and prepaid lease payments transferred to investment property	Unsettled sale proceeds on disposal of property, plant and equipment and prepaid lease payments	Trademarks	Withholding tax in respect of undistributed earnings of PRC subsidiaries	Retirement benefits scheme contributions	Interest receivables	Fair value gain on derivative financial instruments	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2008	1,282	6,210	2,059	78,061	1,800	–	152	–	56,151	145,715
Charge (credit) to profit or loss	–	333	–	(23,165)	(165)	2,158	–	597	–	(20,242)
Charge to property revaluation reserve	–	–	1,930	–	–	–	–	–	–	1,930
Credit to hedging reserve	–	–	–	–	–	–	–	–	(39,210)	(39,210)
Derecognised upon recognition of impairment loss on intangible assets	–	–	–	–	(1,532)	–	–	–	–	(1,532)
Exchange realignment	–	–	–	–	(103)	–	–	–	–	(103)
Effect of change in tax rate dealt with in profit or loss	(73)	(355)	–	(31,526)	–	–	–	–	–	(31,954)
Effect of change in tax rate dealt with property revaluation reserve	–	–	(117)	–	–	–	–	–	–	(117)
At 31 December 2008	1,209	6,188	3,872	23,370	–	2,158	152	597	16,941	54,487
Charge (credit) to profit or loss	–	719	–	8,986	–	3,585	–	(96)	–	13,194
Charge to property revaluation reserve	–	–	7,641	–	–	–	–	–	–	7,641
Disposal of subsidiaries *(note 39)*	–	–	–	–	–	–	(146)	–	–	(146)
Exchange realignment	5	–	–	–	–	2	(6)	–	(2)	(1)
Credit to hedging reserve	–	–	–	–	–	–	–	–	(12,599)	(12,599)
At 31 December 2009	**1,214**	**6,907**	**11,513**	**32,356**	**–**	**5,745**	**–**	**501**	**4,340**	**62,576**

The ultimate realisation of these deferred tax assets depend principally on certain subsidiaries in the PRC achieving profitability and generating sufficient taxable profits to utilise the underlying deferred tax assets. Based on the taxable profit and loss projections of these businesses, it is more probable that the Group can fully utilise the deferred tax assets recognised. It may be necessary for some or all of these deferred tax assets be reduced and charged to profit or loss if there is a significant adverse change in the projected performance and projected taxable profit of the business.

34. DEFERRED TAXATION (Cont'd)

The Group has estimated tax losses arising in Hong Kong of HK$521,738,000 (31/12/2008: HK$956,542,000) and tax losses arising in overseas of HK$51,388,000 (31/12/2008: HK$137,800,000) for offsetting against future taxable profits of the companies in which the losses arose. No deferred tax asset has been recognised in respect of the tax losses due to unpredictability of future profit streams.

As the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was HK$139 million (31/12/2008: HK$50 million). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

35. PROVISION FOR LONG SERVICE PAYMENTS

	HK$'000
At 1 January 2008	929
Amount utilised during the year	(208)
Amount provided during the year	1,049
At 31 December 2008	1,770
Amount utilised during the year	(531)
Amount provided during the year	1,709
At 31 December 2009	2,948

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance. The provision represents management's best estimate of the probable future payments which have been earned by the employees from their service to the Group up to the end of the reporting period.

36. SHARE CAPITAL

	Number of shares '000	Amount HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2008, 31 December 2008 and 31 December 2009	1,000,000	100,000
Issued and fully paid:		
At 1 January 2008	328,816	32,881
Shares repurchased and cancelled *(Note)*	(8,836)	(883)
At 31 December 2008	319,980	31,998
Shares repurchased and cancelled *(Note)*	(10,846)	(1,085)
At 31 December 2009	309,134	30,913

All the issued shares rank pari passu in all respects including all rights as to dividends, voting and return of capital.

36. SHARE CAPITAL (Cont'd)

Note: The Company repurchased its own shares through the Stock Exchange as follows:

Year ended 31 December 2009

Month of repurchase	No. of ordinary shares of HK$0.10 each '000	Price per share Lowest HK$	Price per share Highest HK$	Aggregate consideration paid HK$'000
January 2009	900	1.48	1.58	1,378
February 2009	840	1.38	1.45	1,197
April 2009	546	1.29	1.37	729
May 2009	478	1.38	1.40	671
September 2009	1,962	1.74	1.75	3,449
October 2009	5,120	1.74	1.75	9,002
December 2009	1,000	1.60	1.60	1,608
	10,846			18,034

Year ended 31 December 2008

Month of repurchase	No. of ordinary shares of HK$0.10 each '000	Price per share Lowest HK$	Price per share Highest HK$	Aggregate consideration paid HK$'000
April 2008	584	2.80	2.89	1,662
May 2008	860	2.85	2.93	2,495
June 2008	792	2.68	2.97	2,228
July 2008	1,806	2.47	2.70	4,714
August 2008	668	2.45	2.57	1,711
September 2008	530	1.78	1.98	991
October 2008	1,898	1.63	2.03	3,510
November 2008	872	1.47	1.65	1,352
December 2008	826	1.47	1.55	1,274
	8,836			19,937

The above shares were cancelled upon repurchase. None of the Company's subsidiaries repurchased, sold or redeemed any of the Company's listed shares during both years.

37. SHARE OPTION SCHEME

The purpose of the share option scheme adopted on 26 March 2002 (the "Scheme") is to enable the Company to grant options to eligible participants, thereby (a) providing alternative recognition of their contributions; (b) strengthening the relationship between the Group and its employees and executives; (c) attracting and retaining key employees and executives; and (d) motivating employees and executives. Eligible participants of the Scheme include the directors and employees of the Group. Unless otherwise terminated or amended, the Scheme will remain in force for 10 years from date of adoption.

Pursuant to the Scheme, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and options granted and yet to be exercised under any other schemes will not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the Company's shares in issue at any time. The offer of a grant of share options may be accepted within 28 days from the date of the offer with no consideration being payable by the grantee. The exercise period of the share options granted is determinable by the directors, but no later than 10 years from the date of the offer. The subscription price for the shares in respect of which options are granted is determinable by the directors, but may not be less than the highest of (1) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option; (2) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant of the option; and (3) the par value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share options were granted under the Scheme during both years nor outstanding as at the end of the reporting period.

38. MAJOR NON-CASH TRANSACTIONS

(i) During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of approximately HK$830,000 (31/12/2008: nil).

(ii) As set out in note 22, a subsidiary of the Group was requested by 杭州市拱墅區城中村改造工程指揮部 to surrender a piece of land in Hangzhou to an independent third party for a cash consideration of HK$70,696,000, of which approximately HK$63,626,000 has not been received at the end of the reporting period and amount of HK$31,813,000 was included in long-term receivables and amount of HK$31,813,000 was included in deposits, prepayments and other receivables.

39. DISPOSAL OF SUBSIDIARIES

On 28 October 2009, the Group disposed of its listed subsidiary, Theme and certain of its subsidiaries engaging in retailing business (collectively referred to as "Disposal Group") to an independent third party. The net assets of the Disposal Group at the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	1,648
Inventories	13,692
Trade receivables	3,059
Deposits, prepayments and other receivables	12,232
Deferred tax assets	1,774
Bank balances and cash	148,746
Trade payables	(1,202)
Other payables and accruals	(161,974)
Deferred tax liabilities	(146)
	17,829
Minority interests	(6,547)
Exchange loss realised	(6,287)
Direct expenses incurred for disposal of subsidiaries	16,206
Gain on disposal	89,411
Total consideration	110,612
Satisfied by:	
Cash	110,612
Net cash outflow arising on disposal:	
Cash consideration	110,612
Bank balances and cash disposed of	(148,746)
	(38,134)

40. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the bank borrowings disclosed in note 33, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits.

The directors of the Company review the capital structure on a continuous basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, the share buy-backs, the issue of new shares as well as the issue of new debt or the redemption of existing debt.

41. FINANCIAL INSTRUMENTS

Categories of financial instruments

	31/12/2009 HK$'000	31/12/2008 HK$'000	1/1/2008 HK$'000
Financial assets			
Derivative financial instruments	**317,879**	325,615	317,254
Loans and receivables (including cash and cash equivalents)	**1,410,749**	1,518,048	1,539,609
Available-for-sale investments	**675**	675	675
Financial liabilities			
Derivative financial instruments	**14,390**	23,166	18,906
Amortised cost	**1,365,949**	1,564,070	1,266,594

Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, deposits and other receivables, derivative financial instruments, amounts due from and to jointly controlled entities, structured deposits, short-term deposits, bank balances and cash, trade and bills payables, other payables, bank borrowings and obligation under finance leases. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

41. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities, including intragroup current accounts, at the end of the reporting period are as follows:

	Liabilities		Assets	
	31/12/2009 HK$'000	31/12/2008 HK$'000	**31/12/2009 HK$'000**	31/12/2008 HK$'000
HK$	**60,000**	59,998	**138,384**	–
USD	**189,534**	274,076	**393,707**	231,312

The Group has entered into certain foreign exchange forward contracts as set out in note 27 to hedge against the potential currency exposure arising on the forecast intragroup sales. It is the Group's policy to negotiate the terms of the foreign exchange forward contracts to match the terms of the hedged item to maximise hedge effectiveness.

The Group also entered into certain structured deposits as set out in note 28, of which the coupon rate is dependent on exchange rate of USD and European dollar. The director of the Company considered currency risk arising from structured deposits is insignificant.

41. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

Currency risk (Cont'd)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2008: 5%) strengthen in the group entities' functional currency against the relevant foreign currencies. 5% (2008: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, foreign exchange forward contracts designated as cash flow hedges, cross currency and interest rate swap and cross currency swaps, and adjusts their translation at the end of the reporting period for a 5% (2008: 5%) change in foreign currency rates and forward exchange rates. A positive/negative number below indicates an increase/decrease in post-tax profit for the year and hedging reserve.

	Impact on HKD		Impact on USD	
	31/12/2009	31/12/2008	**31/12/2009**	31/12/2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Profit or loss (i)	**(3,185)**	2,549	**10,688**	(10,009)
Hedging reserve (ii)	**79,411**	65,413	**5,777**	–

(i) This is mainly attributable to the exposure outstanding on foreign currencies denominated monetary items and cross currency swaps at the end of the reporting period, which are not subject to cash flow hedges at year end.

(ii) This is a result of changes in fair value of foreign exchange forward contracts as cash flow hedges in relation to the Group's foreign currency forecast sales.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent currency risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

41. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate short-term deposits and pledged bank deposits. The Group is also exposed to cash flow interest rate risk relating to the variable rate bank borrowings, structured deposits, derivative financial instruments including receive-floating and pay-fixed interest rate swaps, cross currency and interest rate swap and cross currency swaps, which mainly concentrated on fluctuation of HIBOR or LIBOR. For the year ended 31 December 2008, the Group did not have interest rate hedging policy. The management monitors interest rate exposure and considers hedging significant interest rate exposure should the need arise. For the year ended 31 December 2009, the Group entered into certain interest rate swaps to hedge against its exposures to cash flow interest rate risk. The critical terms of these interest rate swaps are similar to those of hedged borrowings. These interest rate swaps are designated as effective hedging instruments and hedge accounting is used (see note 27 for details).

Moreover, the Group also entered into a structured deposit as set out in note 28, of which the coupon rate is dependent on LIBOR. The director of the Company considered interest rate risk arising from structured deposit is insignificant.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments. The analyses include the variable rate bank borrowings which assumes borrowings outstanding balances at the end of the reporting period were outstanding for the whole year, interest rate swaps, cross currency and interest rate swap and cross currency swaps. A 50 basis point (2008: 50 basis point) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rate. The sensitivity analysis below indicates 50 basis point (2008: 50 basis point) increase in interest rate. A negative number below indicates a decrease in post-tax profit.

	31/12/2009 HK$'000	31/12/2008 HK$'000
Profit or loss (i)	**(6,555)**	(7,814)
Hedging reserve (ii)	**(1,155)**	–

(i) This is mainly attributable to the Group's exposure to interest rates on its variable rate bank borrowings outstanding at the end of the reporting period.

(ii) This is a result of changes in fair value of interest rates swaps designated as cash flow hedges in relation to the Group's variable rate bank borrowings.

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

41. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other than concentration of credit risk on the major customers and liquid funds which are deposited with several banks with high credit ratings, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers, spread across geographical areas. In order to minimise the credit risk from the major customers, the term of payment of the major customers are under banks' letter of credit. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. At the end of the reporting period, the Group has available unutilised banking facilities of approximately HK$2,244 million (2008: HK$1,102 million).

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

For derivative financial instruments to be settled on a net basis, undiscounted net cash (inflows) outflows are presented.

41. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

Liquidity tables

	Weighted average interest rate %	Less than 3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2009 HK$'000
2009						
Non-derivative financial liabilities						
Trade and bills payables	–	247,458	24,986	–	272,444	272,444
Other payables	–	97,160	–	–	97,160	97,160
Amounts due to jointly controlled entities	–	4,637	–	–	4,637	4,637
Amount due to an associate	–	595	–	–	595	595
Bank overdrafts	1.57	51	–	–	51	51
Bank borrowings	1.57	806,165	108,076	83,688	997,929	990,354
Obligations under finance leases	13.6	86	258	467	811	708
		1,156,152	133,320	84,155	1,373,627	1,365,949
Derivative – net settlement						
Derivative financial instruments		–	1,032	13,358	14,390	14,390

	Weighted average interest rate %	Less than 3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2008 HK$'000
2008						
Non-derivative financial liabilities						
Trade and bills payables	–	257,532	9,840	–	267,372	267,372
Other payables	–	85,279	–	–	85,279	85,279
Amounts due to jointly controlled entities	–	25,630	–	–	25,630	25,630
Amount due to an associate	–	595	–	–	595	595
Bank overdrafts	3.53	447	–	–	447	447
Bank borrowings	3.53	337,400	699,623	183,530	1,220,553	1,184,578
Obligations under finance leases	8.90	23	69	92	184	169
		706,906	709,532	183,622	1,600,060	1,564,070
Derivative – net settlement						
Derivative financial instruments		–	13,712	9,454	23,166	23,166

41. FINANCIAL INSTRUMENTS (Cont'd)

Fair values

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis;

- the fair value of foreign currency forward contracts designated as hedging instruments are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts;

- the fair value of structured deposits are measured using discounted cash flow analyses based on the applicable yield curves of relevant interest rates and exchange rates, and

- the fair value of interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates; and

- the fair value of cross currency and interest rate swap and cross currency swap are determined by the discounted cash flow analysis using the applicable yield curve for the duration of the instruments or option pricing models.

The Group's financial instruments that are measured subsequent to initial recognition at fair value include derivative financial instruments are grouped into level 2, which are derived from inputs other than quoted prices (unadjusted) in active market for identical assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

42. PLEDGE OF ASSETS

At the end of the reporting period, the Group has pledged the following assets to secure credit facilities granted to the Group.

	31/12/2009 HK$'000	31/12/2008 HK$'000
Trade receivables	54,080	64,210
Bills receivable	37,445	16,364
Bank deposit	–	142
	91,525	80,716

43. OPERATING LEASES

(a) The Group as lessor

The Group leases its investment properties and subleases certain of its rented shops under operating lease arrangements with average lease term of one to two years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	31/12/2009 HK$'000	31/12/2008 HK$'000
Within one year	7,744	9,358
In the second to fifth years, inclusive	2,811	6,901
Over five years	–	79
	10,555	16,338

43. OPERATING LEASES (Cont'd)

(b) The Group as lessee

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	31/12/2009 HK$'000	31/12/2008 HK$'000
Within one year	26,021	26,822
In the second to fifth years, inclusive	20,263	37,860
Over five years	6,517	7,286
	52,801	71,968

Operating lease payments represent rental payable by the Group for certain of its office premises, rental shops and factories. Leases are negotiated for terms ranging from one to ten years and rentals are fixed over the lease terms. In addition to the fixed rentals which are disclosed above, pursuant to the terms of certain rental agreements, the Group has to pay a rental based on certain percentage of the gross sales of the relevant shops when the sales meet certain specified level.

44. CAPITAL COMMITMENTS

	31/12/2009 HK$'000	31/12/2008 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for in the consolidated financial statements	2,090	29,433

45. RETIREMENT BENEFITS SCHEMES

The Group operates a mandatory provident fund scheme (the "MPF Scheme") for all qualifying employees of the Group in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of the trustees. The employees of the subsidiaries in the PRC are members of retirement benefits schemes operated by the PRC government. The contributions are charged to profit or loss as incurred.

The relevant PRC subsidiaries are required to make contributions to the state retirement schemes in the PRC based on a certain percentage of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff.

46. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year:

	2009 HK$'000	2008 HK$'000
Purchases of raw materials and finished goods from jointly controlled entities	**41,129**	40,477
Sales of raw materials and finished goods to jointly controlled entities	**1,470**	3,892
Professional fees paid to Wilkinson & Grist *(Note i)*	**1,018**	595
Training fee paid to Clothing Industry Training Authority *(Note ii)*	**360**	1,265
Professional fee paid to Tai Fook Finance Co., Ltd and Tai Fook Capital Ltd. (Note iii)	**5,228**	8

Notes:

(i) Mr. Chan Wah Tip, Michael, a director of the Company, is a partner of Wilkinson & Grist.

(ii) Professor Yeung Kwok Wing, a director of the Company, is a director of Clothing Industry Training Authority.

(iii) Mr. Wong Shiu Hoi, Peter, a director of the Company, is a director of Tai Fook Finance Co., Ltd and Tai Fook Capital Ltd.

Compensation of key management personnel

The remuneration of directors and key executive during the year are set out in note 9, which are determined by the Remuneration Committee having regard to the performance of individuals and market trends.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group 2009 %	2008 %	Principal activities
Angel Star Investment Limited	Hong Kong	HK$2 Ordinary HK$2 Non-voting deferred	100 100	63.18 63.18	Holding of trademarks
Anway Garment Limited	Hong Kong	HK$2	100	100	Garment trading
August Silk Inc.	USA	US$10	100	100	Marketing and garment trading
Bramead International Inc.	British Virgin Islands (“BVI”)/USA	US$1	100	100	Holding of trademarks
Cantabian Limited	Hong Kong	HK$2 Ordinary HK$2 Non-voting deferred	100 100	100 100	Investment holding
Dongguan Dalisheng Fashion Co., Ltd. *(Note 1)*	PRC	HK$28,000,000	100	100	Garment manufacturing
Dongguan Yihao Fashions Limited *(Note 2)*	PRC	HK$20,500,000	100	63.18	Garment manufacturing
Eminent Garment Limited	Hong Kong	HK$2	100	100	Garment trading
Guangdong Theme-Huayu Fashion Company Limited *(Note 2)*	PRC	RMB5,000,000	100	63.18	Garment retailing
High Fashion Accessories and Gifts Limited	Hong Kong	HK$2	100	100	Accessories and gifts trading and manufacturing
High Fashion Apparel Limited	BVI/Hong Kong	US$1,000	100	100	Investment holding
High Fashion August Moon Silk (Shengzhou) Co., Ltd.	PRC	US$3,600,000	100	–	Silk weaving

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group 2009 %	2008 %	Principal activities
High Fashion (China) Co., Ltd. *(Note 1)*	PRC	US$106,865,779	100	100	Dyeing, printing and sandwashing of fabrics and garment manufacturing
High Fashion Commerce Limited	Hong Kong	HK$1	100	100	Provision of procurement and undertaking services
High Fashion Garments Company Limited	Hong Kong	HK$2 ordinary HK$10,000,000 Non-voting deferred	100 100	100 100	Garment trading
High Fashion Garments, Inc.	USA	US$5,000	100	100	Marketing and garment trading
High Fashion Garments Macao Commercial Offshore Limited	Macau	MOP100,000	100	100	Garment trading and agency
High Fashion Garments Management Limited	Hong Kong	HK$20 Ordinary HK$20 Non-voting deferred	100 100	100 100	Provision of management services
High Fashion International (USA) Inc.	USA	US$1,800	100	100	Investment holding
High Fashion Knit Company Limited	Hong Kong	HK$2	100	100	Garment trading
High Fashion Knitwear Overseas Limited	Hong Kong	HK$2 Ordinary HK$10,000 Non-voting eferred	100 100	100 100	Garment trading
High Fashion Silk (Zhejiang) Co., Ltd. *(Note 1)*	PRC	US$32,500,000	100	100	Silk weaving
High Fashion (UK) Limited	United Kingdom	GBP20,000	70.5	70.5	Garment trading
Navigation Limited	BVI/Hong Kong	US$1	100	100	Investment holding
Stage II Limited	Hong Kong	HK$800,000	100	63.18	Garment retailing

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group 2009 %	2008 %	Principal activities
Taiwan Vision Company Limited	Taiwan	NT$80,000,000	–	63.18	Garment retailing
The King Garment Limited	Hong Kong	HK$2	100	100	Garment trading
Theme Corporate Fashion (Asia) Limited	Hong Kong	HK$1	100	63.18	Garment trading
Theme Corporate Fashion (China) Limited	Hong Kong	HK$1	100	63.18	Investment holding
Theme Fashion (Singapore) Pte. Ltd.	Singapore	S$100,000	100	63.18	Garment retailing
Theme Garments (Shenzhen) Company Limited *(Note 2)*	PRC	RMB60,000,000	100	63.18	Garment retailing and trading
Theme Industry Hangzhou Company Limited *(Note 2)*	PRC	US$2,000,000	100	63.18	Garment manufacturing
Theme BVI	BVI	US$10,001	100	100	Investment holding
Theme International Limited	Hong Kong	HK$2 Ordinary HK$1,000,000 Non-voting deferred	100 100	63.18 63.18	Garment trading
Theme	Bermuda/Hong Kong	HK$8,965,000	–	63.18	Investment holding
Winsmart Overseas Limited	Hong Kong	HK$2	100	100	Garment trading

Notes:

(1) These companies are registered as wholly-owned foreign enterprises.

(2) These companies are registered as wholly-owned foreign enterprises, in which the Group held 63.18% effective interest through its 63.18% interest in Theme as at 31 December 2008.

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

High Fashion Apparel Limited is a directly held wholly-owned subsidiary of the Company. Except High Fashion Apparel Limited, all subsidiaries listed above are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

Financial Summary

A summary of the published results and of the assets and liabilities of the Group for the last five financial periods, as extracted from the audited financial statements and reclassified and adjusted as appropriate, is set out below:

RESULTS

	Year ended 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**2,271,566**	2,598,031	2,554,781	2,253,198	2,108,497
Profit before taxation	**192,457**	96,904	712,692	104,174	76,614
Taxation	**(35,007)**	(18,551)	(157,315)	(19,030)	(9,181)
Profit for the year	**157,450**	78,353	555,377	85,144	67,433
Profit for the year attributable to					
Owners of the Company	**165,507**	90,635	566,616	85,118	67,433
Minority interests	**(8,057)**	(12,282)	(11,239)	26	–
	157,450	78,353	555,377	85,144	67,433

ASSETS AND LIABILITIES

	At 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**3,367,662**	3,478,849	3,311,276	1,787,672	1,431,137
Total liabilities	**(1,728,199)**	(1,885,533)	(1,618,396)	(992,765)	(724,995)
	1,639,463	1,593,316	1,692,880	794,907	706,142

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lam Foo Wah
(Chairman and Managing Director)
Ms. So Siu Hang, Patricia

Non-executive Directors

Mr. Chan Wah Tip, Michael
Professor Yeung Kwok Wing

Independent Non-executive Directors

Mr. Woo King Wai
Mr. Wong Shiu Hoi, Peter
Mr. Leung Hok Lim

AUDIT COMMITTEE

Mr. Leung Hok Lim *(Chairman)*
Mr. Chan Wah Tip, Michael
Professor Yeung Kwok Wing
Mr. Woo King Wai
Mr. Wong Shiu Hoi, Peter

REMUNERATION COMMITTEE

Mr. Wong Shiu Hoi, Peter *(Chairman)*
Mr. Chan Wah Tip, Michael
Professor Yeung Kwok Wing
Mr. Woo King Wai
Mr. Leung Hok Lim

COMPANY SECRETARY

Ms. Chan Wai Wei, Cynthia

LEGAL ADVISER IN HONG KONG

Wilkinson & Grist

LEGAL ADVISER ON BERMUDA LAW

Conyers Dill & Pearman

AUDITORS

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

11th Floor, High Fashion Centre
1-11 Kwai Hei Street, Kwai Chung
New Territories, Hong Kong

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Westbroke Limited
Clarendon House, Church Street
Hamilton HM11, Bermuda

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Tricor Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Hong Kong

PRINCIPAL BANKERS

Bank of America, N.A., Hong Kong Branch
Bank of China (Hong Kong) Limited
Citibank N.A., Hong Kong Branch
CITIC Ka Wah Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
KBC Bank, Hong Kong Branch
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited

Shareholders & Investor Relation Information

RESULTS ANNOUNCEMENT:

2009 Final	16 April 2010
2009 Interim	21 September 2009
2008 Final	7 April 2009
2008 Interim	16 September 2008

2010 ANNUAL GENERAL MEETING

9 June 2010

CLOSURE OF REGISTER OF MEMBERS

Period from 3 June 2010 to 9 June 2010

DIVIDENDS:

2009 Final and Special	13 HK cents per share payable on or about 18 June 2010
2009 Interim	3 HK cents per share paid on 19 October 2009
2008 Final	3 HK cents per share paid on 29 June 2009
2008 Interim	3 HK cents per share paid on 22 October 2008

AUTHORISED SHARES

1,000,000,000 shares

ISSUED SHARES

309,133,550 shares (as at 31 December 2009)

BOARD LOT

2,000 shares

PAR VALUE

HK$0.1000

FINANCIAL YEAR END

December 31

STOCK CODE

608

COMPANY WEBSITE

www.highfashion.com.hk

LISTING DATE

4 August 1992