Hembly International Holdings Limited
恒寶利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3989)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

HIGHLIGHTS

- Revenue amounted to HK$611.7 million, an increase of 43.0%
- Gross profit increased by 54.7% to HK$219.9 million at a margin of 35.9%
- Net profit attributable to shareholders of the Company increased by 34.3% to HK$78.1 million
- Basic earnings per share was HK36.5 cents per share
- Proposed final dividend of HK7.0 cents per share

RESULTS

The Board of Directors (the "Board") of Hembly International Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Revenue	4	**611,689**	427,781
Cost of sales		**(391,801)**	(285,672)
Gross profit		**219,888**	142,109
Other income	5	**5,554**	2,781
Administrative expenses		**(86,430)**	(51,634)
Distribution costs		**(24,967)**	(17,244)
Finance costs	6	**(23,256)**	(12,423)
Profit before tax	7	**90,789**	63,589
Income tax expense	8	**(13,296)**	(5,115)
Profit for the year		**77,493**	58,474
Attributable to:			
Equity holders of the parent		**78,128**	58,194
Minority interests		**(635)**	280
		77,493	58,474
Dividends	9		
Interim HK3.0 cents (2005: Nil) per share, paid		**7,586**	–
Final HK7.0 cents (2005: Nil) per share, proposed		**17,702**	–
Earnings per share	10		
Basic		**HK36.50 cents**	HK32.33 cents
Diluted		**HK36.47 cents**	HK32.33 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000 (Note 1)
Non-current assets			
Property, plant and equipment		**175,106**	121,712
Prepaid lease payments		**59,391**	28,944
Loan to a jointly controlled entity		**5,168**	1,574
Available-for-sale investments		**5,424**	4,799
		245,089	157,029
Current assets			
Inventories		**107,315**	69,187
Trade receivables	11	**187,932**	93,449
Deposits, prepayments and other receivables		**58,229**	47,301
Prepaid lease payments		**1,246**	611
Loans to jointly controlled entities		**5,596**	–
Amount due from a minority shareholder		**1,300**	10,584
Amounts due from related companies		**–**	21,845
Amounts due from jointly controlled entities		**6,112**	–
Available-for-sale investments		**1,960**	–
Tax recoverable		**1,584**	809
Pledged bank deposits		**57,462**	32,568
Bank deposits with original maturity of more than three months		**150,000**	–
Bank balances and cash		**30,982**	52,049
		609,718	328,403
Current liabilities			
Trade payables	12	**58,631**	43,161
Other payables and accruals		**28,802**	34,042
Loans from shareholders of jointly controlled entities		**6,273**	–
Amounts due to shareholders of jointly controlled entities		**6,682**	1,457
Amount due to a jointly controlled entity		**–**	3,510
Taxation payable		**10,459**	2,776
Obligations under finance leases – due within one year		**328**	586
Bank borrowings – due within one year		**287,871**	191,059
Bank overdrafts		**76**	9,288
		399,122	285,879
Net current assets		**210,596**	42,524
Total assets less current liabilities		**455,685**	199,553

	Notes	2006 HK$'000	2005 HK$'000 (Note 1)
Non-current liabilities			
Loans from shareholders of jointly controlled entities		**5,168**	2,250
Obligations under finance leases – due after one year		**596**	1,769
Bank borrowings – due after one year		**104,710**	46,244
Deferred tax liabilities		**–**	336
		110,474	50,599
		345,211	148,954
Capital and reserves			
Share capital		**25,288**	7
Reserves		**319,902**	148,291
Equity attributable to equity holders of the parent		**345,190**	148,298
Minority interests		**21**	656
		345,211	148,954

Notes:

1. GROUP RESTRUCTURING AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 27 May 2004 and its shares have been listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 13 July 2006. Its ultimate holding company and immediate holding company are Charm Hero Investments Limited and Mensun Ltd., companies incorporated in the British Virgin Islands ("BVI") which are beneficially owned by Mr. Ngok Yan Yu and his family.

Under a group reorganisation scheme ("Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 13 June 2006. Details of the Group Reorganisation were set out in the prospectus issued by the Company dated 30 June 2006 ("Prospectus").

The principal steps of the Group Reorganisation, which involved the exchange of shares, were as follows:

(a) One subscriber share of the Company was allotted and issued at nil paid to Mr. Ngok Yan Yu as the initial shareholder of the Company; and

(b) On 13 June 2006, the shareholders of Full Prosper Holdings Limited ("Full Prosper"), which was former holding company of the Company's subsidiaries before the Group Reorganisation, transferred to the Company an aggregate of 903 shares of US$1 each in Full Prosper, being the entire issued share capital of Full Prosper, in consideration and in exchange for 39,999,999 shares of HK$0.10 each of the Company.

The Group resulting from the above mentioned Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as if the group structure under the Group Reorganisation had been in existence throughout the two years ended 31 December 2006 and 2005.

The principal activities of the Group are the manufacture and sales of apparel and accessories, and distribution and retailing of apparel and footwear.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – Int 8	Scope of HKFRS 2[4]
HK(IFRIC) – Int 9	Reassessment of embedded derivatives[5]
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC) – Int 12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after January 1, 2007.
2 Effective for annual periods beginning on or after January 1, 2009.
3 Effective for annual periods beginning on or after March 1, 2006.
4 Effective for annual periods beginning on or after May 1, 2006.
5 Effective for annual periods beginning on or after June 1, 2006.
6 Effective for annual periods beginning on or after November 1, 2006.
7 Effective for annual periods beginning on or after March 1, 2007.
8 Effective for annual periods beginning on or after January 1, 2008.

3. BUSINESS AND GEOGRAPHICAL SEGMENT

Business segments

For management purposes, the Group is currently organised into three operating divisions – manufacture and sales of apparel and accessories, and distribution and retailing of apparel and footwear. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these business is presented below:

Year ended 31 December 2006

	Manufacture and sales of apparel and accessories *HK$'000*	Distribution and retailing of apparel and footwear *HK$'000*	Other *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE					
External sales	**551,924**	**59,406**	**359**	**–**	**611,689**
Inter-segment sales	**6,328**	**1,084**	**–**	**(7,412)**	**–**
Total	**558,252**	**60,490**	**359**	**(7,412)**	**611,689**
RESULT					
Segment result	**121,445**	**91**	**61**		**121,597**
Unallocated income					**3,477**
Unallocated corporate expense					**(11,029)**
Finance costs					**(23,256)**
Profit before tax					**90,789**
Income tax expense					**(13,296)**
Profit for the year					**77,493**

BALANCE SHEET

	Manufacture and sales of apparel and accessories *HK$'000*	Distribution and retailing of apparel and footwear *HK$'000*	Other *HK$'000*	Consolidated *HK$'000*
ASSETS				
Segment assets	**539,854**	**50,521**	**–**	**590,375**
Unallocated corporate assets				**264,432**
				854,807
LIABILITIES				
Segment liabilities	**(73,453)**	**(13,974)**	**(6)**	**(87,433)**
Unallocated corporate liabilities				**(422,163)**
				(509,596)

OTHER INFORMATION

	Manufacture and sales of apparel and accessories *HK$'000*	**Distribution and retailing of apparel and footwear** *HK$'000*	**Other** *HK$'000*	**Consolidated** *HK$'000*
Capital additions	**53,867**	**7,696**	**–**	**61,563**
Amortisation of prepaid lease payments	**623**	**–**	**–**	**623**
Depreciation	**8,073**	**2,166**	**–**	**10,239**
Loss on disposal of property, plant and equipment	**580**	**116**	**–**	**696**

Year ended 31 December 2005

	Manufacture and sales of apparel and accessories *HK$'000*	Distribution and retailing of apparel and footwear *HK$'000*	Other *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE					
External sales	411,777	15,762	242	–	427,781
Inter-segment sales	5,351	–	–	(5,351)	–
Total	417,128	15,762	242	(5,351)	427,781
RESULT					
Segment result	79,683	(4,295)	20		75,408
Unallocated income					633
Unallocated corporate expense					(29)
Finance costs					(12,423)
Profit before tax					63,589
Income tax expense					(5,115)
Profit for the year					58,474

BALANCE SHEET

	Manufacture and sales of apparel and accessories *HK$'000*	**Distribution and retailing of apparel and footwear** *HK$'000*	**Other** *HK$'000*	**Consolidated** *HK$'000*
ASSETS				
Segment assets	356,771	15,013	4	371,788
Unallocated corporate assets				113,644
				485,432
LIABILITIES				
Segment liabilities	(67,789)	(9,379)	(35)	(77,203)
Unallocated corporate liabilities				(259,275)
				(336,478)

OTHER INFORMATION

	Manufacture and sales of apparel and accessories	Distribution and retailing of apparel and footwear	Other	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	74,407	2,577	–	76,984
Amortisation of prepaid lease payments	601	–	–	601
Depreciation	5,151	1,027	–	6,178
Loss on disposal of property, plant and equipment	19	–	–	19
Allowance on loan to a jointly controlled entity	–	676	–	676

Geographical segments

The analysis of the Group's revenue by geographical market for the year is as follows:

	2006	2005
	HK$'000	*HK$'000*
Europe	**476,284**	374,675
The PRC	**86,363**	23,948
Others	**49,042**	29,158
	611,689	427,781

	Carrying amount of segment assets		**Addition to property, plant and equipment**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**416,110**	259,006	**52,241**	71,830
Hong Kong	**127,743**	101,455	**9,308**	4,664
Europe	**785**	746	**1**	–
Macau	**45,737**	10,581	**13**	490
	590,375	371,788	**61,563**	76,984

4. REVENUE

	2006	2005
	HK$'000	*HK$'000*
Manufacture and sales of apparel and accessories	**551,924**	411,777
Distribution and retailing of apparel and footwear	**59,406**	15,762
Royalty fee income	**359**	242
	611,689	427,781

5. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Bank interest income	3,298	550
Interest income from a jointly controlled entity	179	83
Total interest income	3,477	633
Delivery charge received from customers and suppliers	462	540
Management fee income from a jointly controlled entity	180	192
Sundry income	1,435	1,416
	5,554	2,781

6. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings and overdrafts wholly repayable		
– within five year	**22,535**	12,175
– over five years	**387**	83
Obligations under finance leases	**155**	61
Loan from shareholder of a jointly controlled entity	**179**	104
	23,256	12,423

7. PROFIT BEFORE TAX

	2006	2005
	HK$'000	*HK$'000*
Profit before tax has been arrived at after charging:		
Allowance on loan to a jointly controlled entity	**–**	676
Auditors' remuneration	**1,125**	725
Cost of inventories recognised as an expense	**391,801**	285,672
Depreciation of property, plant and equipment	**10,239**	6,178
Amortisation of prepaid lease payments	**623**	601
Loss on disposal of property, plant and equipment	**696**	19
Exchange loss	**2,542**	2,554
Staff costs		
– directors' remuneration	**8,967**	5,106
– other staff costs	**35,585**	27,420
– retirement benefit scheme contribution excluding directors	**3,026**	2,672
	47,578	35,198

8. INCOME TAX EXPENSE

	2006 *HK$'000*	2005 *HK$'000*
Current tax:		
Hong Kong	**11**	2,330
Other jurisdictions	**13,345**	2,510
	13,356	4,840
Under(over)provision in prior years:		
Hong Kong	**282**	(7)
Other jurisdictions	**(6)**	–
	276	(7)
Deferred tax:		
Current year	**(336)**	282
	13,296	5,115

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the years ended 31 December 2006 and 2005, respectively. Taxation arising in other jurisdiction is calculated at the rate prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries were exempted from PRC Foreign Enterprise Income Tax ("FEIT") for two years starting from their first profit-making year, followed by a 50% reduction for next three years and will be expired ranging from year 2007 to 2011. Accordingly, tax provision for these subsidiaries have been provided for after taking into account of these tax exemption during the years.

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

	2006 *HK$'000*	2005 *HK$'000*
Profit before tax	**90,789**	63,589
Tax at the domestic income tax rate of 24% (2005: 17.5%)	**21,790**	11,128
Tax effect of expenses not deductible for tax purpose	**1,325**	450
Tax effect of incomes not taxable for tax purpose	**(295)**	(320)
Tax effect on tax concession	**(15,857)**	(8,343)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,033)**	1,093
Tax effect of tax losses not recognised	**7,026**	1,111
Tax effect of unrecognised deferred tax assets	**64**	–
Net under(over)provision in prior years	**276**	(7)
Others	**–**	3
Income tax expense for the year	**13,296**	5,115

Note: The domestic income tax rate in the jurisdiction where the operation of the Group is substantially based is used and the change of the domestic income tax rate is as a result of the expanded operations in the PRC.

9. DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
Dividend recognised as distribution during the year		
Interim – HK3.0 cents per share (2005: nil)	**7,586**	–

The final dividend of HK7.0 cents (2005: nil) per share has been proposed by the directors of the Company and is subject to approval by the shareholders in general meeting.

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent entity is based on profit attributable to equity holders of the parent of approximately HK$78,128,000 (2005: HK$58,194,000) and the weighted average number of shares as follows:

Number of shares

	2006	2005
	HK$'000	*HK$'000*
	(Note a)	*(Note b)*
Weighted average number of ordinary shares for the purposes of basic earnings per share	**214,058**	180,000
Effect of dilutive potential ordinary shares for share options	**168**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**214,226**	180,000

Note:

(a) The computation of diluted earnings per share does not assume the exercise of certain outstanding share options as the exercise price of those options is higher than the average market price of the shares for the year 2006.

(b) The calculation of basic and diluted earnings per share for the year 2005 is assuming that 180,000,000 shares of the Company had been in issue throughout the year 2005.

11. TRADE RECEIVABLES

The Group has a policy of allowing an average credit period of 60 – 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet dates:

	2006	2005
	HK$'000	*HK$'000*
0 – 90 days	**178,755**	86,852
91 – 180 days	**6,700**	4,873
181 – 360 days	**619**	1,724
Over 360 days	**1,858**	–
	187,932	93,449

12. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	2006	2005
	HK$'000	*HK$'000*
0 – 90 days	**54,924**	37,838
91 – 180 days	**2,535**	3,181
181 – 360 days	**731**	2,012
Over 360 days	**441**	130
	58,631	43,161

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Overview

The strong increase in revenue for 2006 indicates the Group has continued to thrive in the markets where it operates. During this year, the Group's revenue reached HK$611.7 million, representing an increase of 43.0% as compared to last year. The Group's overall gross margin improved to 35.9% as compared to 33.2% reported last year. Profit attributable to the equity holders of the Company in 2006 also increased by 34.3% to HK$78.1 million.

The outstanding performance is attributable to the Group's continuous broadening of its supply chain services, based on the strategy of creating added values for its customers. The operating and financial results of our distribution and retailing also continued to improve. It achieved a turnaround from a loss in 2005 to a slightly gain in 2006.

Supply chain services

Despite key market challenges, including the rise in fuel costs, higher raw material prices and global trading regulatory changes for textile products (especially given the additional textile safeguards placed on China by the United States and European Union), the Group's supply chain services flourished. Revenue for the supply chain services increased by 34.0% to HK$551.9 million as compared to last year, which accounted for 90.2% of the Group's revenue in 2006. The gross margin of the Group's supply chain services surged from 32.7% to 35.3%, as compared to last year, notwithstanding the increased cost environment and the pricing pressures exerted by appreciation of the RMB.

This remarkable growth can be attributed to the rising global trend, particularly in Europe, of outsourcing production to Asia, especially China. Leveraging on the Group's comprehensive supply chain services platform, we are well placed to capitalize on the growth of this outsourcing trend. Europe remains our biggest export market, accounting for 77.9% of the Group's revenue. The above aside, the Group's strategy towards the creation of added values for its customers, which has proved sound, has contributed to the improvement of the gross margin. These added values include services such as quick response sourcing, product design and development support, logistical management and etc.

Since the end of 2006, completion of the new phase of our Yangzhou production base has also strengthened the Group's dual operation model in production management and high-tech garment manufacturing techniques. Such newly completed production facilities comprise a production workshop for the manufacture of high-tech outdoor wear as well as a production workshop for the Group's 50:50 joint venture with Mountain Experience Beteiligungs Gesellschaft M.B.H. ("MEB"), a global sports and mountaineering products provider.

The MEB 50:50 joint venture, established in the third quarter of 2006, will further boost our supply chain services as the Group can leverage on the established brand names held by MEB and its long established network. This joint venture's mission is to operate a PRC production and technological center for the manufacture of products sold under the trademarks *Salewa*, *Dynafit* and *Silvretta*, with the goal of developing high-tech garment manufacturing techniques. Besides, minimum orders of *Salewa* products are guaranteed. With the support of MEB, the joint venture has obtained "*GORETEX*" certification from W.L. Gore & Associates.

On the information technology front, we have also made consistent and solid strides to increase operational efficiency through the implementation of Lawson Software's M3 fashion enterprise suite, a leading Enterprise Resource Planning ("ERP") solution tailored specifically to the fashion industry. This has allowed greater information transparency within the Group's supply chain management system, reduced operation costs, facilitated business flow and optimized management. Efforts have also been made to our production management system including significant investment in the sample room application and the Enterprise Resources Management ("ERM") system, as well as the updated Point of Sale ("POS") management system for distribution and retailing. These initiatives have improved inventory and cost control and boosted overall efficiency.

Going forward, the Group will continue to consolidate its customer base to focus more high-end customers with high margin and significant growth potential. In particular, we will concentrate on the high fashion and luxury brand, and high-tech functional garments. Also, in view of the fast changing customer expectations, the Group will retain its strategy to create more added values for its customers along the supply chain, especially in product design and development and in technology.

Distribution and retailing

The Group's distribution and retailing business has continued to operate under a favorable business environment due to strong and sustained economic growth in the PRC and the rising consumption power of an emerging middle class.

Revenue of the Group's distribution and retailing business, accounting for 9.7% of the Group's revenue, achieved an outstanding growth of 276.9% to HK$59.4 million, as compared to last year. The gross margin of the Group's distribution and retailing business has also improved from 36.4% to 37.9%, as compared to last year.

These improved results can be mainly attributed to the commencement of the Group's distribution for the brand *Lotto*. The Group's 50:50 joint venture with Lotto Sport H.K. Limited was established in the forth quarter of 2005, wherein such joint venture is granted a 10 years exclusive right to distribute and sell apparel and footwear products under the brand *Lotto* in the PRC, Hong Kong and Macau. Adopting a diversified retail model that comprises franchised retail shops and directly-managed retail shops, the joint venture has, within a short span of one year, established a sizeable network. As at 31 December 2006, the joint venture has 65 points-of-sale including 11 directly-managed shops and 54 franchised shops throughout the PRC, covering mainly the first and second tier cities.

The gross margin for this *Lotto* joint venture has been favorable, as the Group focused significantly more on sourcing products within the PRC. Given the current interest in sports and sportswear in the PRC, fueled by the imminent Olympic Games in 2008, the Group plans to further expand the *Lotto* network to 250-points-of-sale by 2008.

The above aside, the substantial increase in revenue of the Group's distribution and retailing can be attributed to the Group's expanded distribution network for the brand *Stonefly*, under a 50:50 joint venture, which the Group established with Stonefly S.p.A. in mid 2004. As at 31 December 2006, the joint venture has 34 points-of-sale including 22 directly-managed shops and 12 franchised shops throughout the PRC, again covering mainly the first and second tier cities.

The gross margin for this *Stonefly* joint venture dropped slightly this year due to the apparel stock clearance, as the Group switched away from offering both apparel and footwear, and focused solely on footwear.

The distribution and retailing business was further supported by a joint venture agreement with the Benetton Group S.p.A. ("Benetton Group") in September 2006, which made the joint venture as the exclusive distributor for all items of men and women's apparel and accessories under the brand of *Sisley* in the PRC.

In the first half of 2007, about 35 shops, directly-managed by Benetton Group, are expected to be transferred to the new joint venture. And the Group plans to cover 115 additional points-of-sale through directly-managed shops in the PRC over the next four years.

Looking ahead, the Group plans to enhance each brand's market awareness through aggressive PR campaigns, with the view to increase the sales per shop, to capitalize in the sustained growth of the PRC economy and the exponential demand for premium consumer products. Meanwhile, leveraging on the Group's comprehensive supply chain services platform, the Group is able to improve the overall gross margin of its distribution and retailing business through more local products sourcing.

We will continue to form long-term synergistic partnerships with renowned international brands in the PRC market and develop our niche in being a multi-brand operator with a portfolio of renowned brands that target the middle-high class consumers in the PRC as they are the largest mainstream market for our products.

Striving to expand our sales networks whilst simultaneously achieving an economies of scale, we believe the distribution and retailing business will be the growth engine for the Group in the years to come.

Operating expenses

In 2006, the Group's distribution costs surged by 44.8% to HK$25.0 million, as compared to last year, which, as a percentage of revenue, remained fairly stable at about 4.0%. The increase in the Group's distribution costs is mainly attributable to the Group's vast distribution and retailing business expansion, of which distribution cost is a key component. These distribution costs mainly comprise (i) advertising costs; (ii) staff salaries and emoluments; (iii) rental and shop expenses/ overheads; and (iv) travelling expenses.

The Group's administrative expenses substantially increased by 67.4% to HK$86.4 million, as compared to last year. As a percentage of revenue, the Group's administrative expenses increased from 12.1% in 2005 to 14.1% in 2006. The substantial increase in administrative expenses is mainly attributable to charge of the IPO expenses of HK$8.9 million and the share option expenses of HK$1.9 million in compliance with the new HKFRS 2 – Share-based Payments requirements. Meanwhile, the higher expenses in staff salaries and emoluments also attribute to the significant increase in the administrative expenses, given more human resources are required to cope with the Group's vast expansion. Besides, additional depreciation in respect of the new facilities completed in Nanjing, PRC, has increased the Group's administrative expenses during the year.

Finance costs

Finance costs increased by 87.2% to HK$23.3 million, as compared to last year. This substantial finance costs' increase is mainly attributable to the higher average level of interest rate in 2006 as compared to 2005 and a higher level of bank borrowings necessary to finance the Group's vast expansion.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group met its funding requirements in its usual course of operation by cash flows from operation, bank borrowings, as well as issuance of equity securities. As at 31 December 2006, the Group had cash and cash equivalents of HK$238.4 million, primarily denominated in RMB and HK dollars, (31 December 2005: HK$84.6 million) and total bank borrowings of HK$392.7 million (31 December 2005: HK$246.6 million), of which 73.3% constituted short-term bank borrowings and 26.7% constituted long-term bank borrowings. Besides, 5.1% of the total bank borrowings was subject to fixed interest rates, whilst 94.9% thereof was subject to floating interest rates. The Group's bank borrowings were primarily denominated in RMB, HK dollars and US dollars. As at 31 December 2006, 15.0%, 18.8% and 66.2% of the Group's total bank borrowings were denominated in RMB, HK dollars and US dollars respectively. The substantial increase in the Group's bank borrowings was mainly attributable to the Group's high demand for working capital and capital expenditures, resulting from the Group's vast expansion in supply chain services as well as the distribution and retailing business, as the Group is still in a developing and high growth stage of its development cycle. As at 31 December 2006, the nature of the Group's total bank borrowings were as follows:

	2006	2005
	HK$'000	*HK$'000*
Bank overdrafts	**76**	9,288
Bills discount loans	**91,667**	67,912
Trust receipt loans	**134,233**	104,794
Packing loans	**28,545**	13,755
Current-portion of term loans	**33,426**	4,598
Total short-term borrowings	**287,947**	200,347
Long-term borrowings	**104,710**	46,244
Total bank borrowings	**392,657**	246,591

With the net proceeds of HK$101.6 million raised from the Initial Public Offering on 13 July 2006, the Group's net gearing ratio (which is calculated on the basis of total bank borrowings (net of cash and cash equivalent) over the total shareholders' equity of the Company) and current ratio (which is calculated on the basis of current assets over current liabilities) significantly improved. The net gearing ratio decreased from 1.09 as at 31 December 2005 to 0.45 as at 31 December 2006, notwithstanding the substantial increase in the Group's bank borrowings. As at 31 December 2006, the Group had current assets of HK$609.7 million (31 December 2005: HK$328.4 million) and current liabilities of HK$399.1 million (31 December 2005: HK$285.9 million). The current ratio significantly improved from 1.15 as at 31 December 2005 to 1.53 as at 31 December 2006. Both net gearing ratio and current ratio are considered healthy and indicates the Group's sound liquidity.

The interest coverage, expressed as a multiple of EBITDA over the interest expenses, was 5.37, which is considered a comfortable level.

Subsequent to the balance sheet date, on 27 March 2007, the Group obtained a 3-year syndicated term loan and revolving credit facility in an aggregate amount of HK$200 million. The loan bears interest at HIBOR plus 1.55% per annum. The syndicated term loan is repayable by installments over the three years period. The proceeds will be used to finance general working capital and capital expenditure of the Group.

FOREIGN EXCHANGE EXPOSURE

The majority of the Group's sales, purchase and operating expenses were denominated in RMB, HK dollars and US dollars. Although the Group has been and will continue to be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group has adopted no formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the year.

CHARGES ON ASSETS

As at 31 December 2006, the Group's bank deposits of HK$57.5 million, available-for-sale securities of HK$7.4 million, property, plant and equipment with an aggregate net book value of HK$131.2 million, and land use rights with an aggregate net book value of HK$30.1 million were pledged to secure the general banking facilities and bank borrowings granted to the Group.

CONTINGENT LIABILITIES

As at 31 December 2006, neither the Group nor the Company had any material contingent liabilities.

EMPLOYMENT INFORMATION

As at 31 December 2006, the Group had about 2,030 employees in total, and they station mainly in the PRC, Hong Kong and Europe. The Group's emolument policies, which are reviewed periodically, are linked to the performance of the individual employees and are based on the salary trends, prevailing in the aforesaid regions.

In addition, the Group maintains a share option scheme for the purpose of providing incentives and rewards to eligible participants based on their respective contributions to the Group.

DIVIDEND

The Board recommends the payment of a final dividend of HK7.0 cents per share. This final dividend, together with the interim dividend of HK3.0 cents per share, will make a total dividend of HK10.0 cents per share for the year ended 31 December 2006. The dividend payout ratio for the year of 2006 is about 32%. Subject to the Company's shareholders approval at the forthcoming annual general meeting of the Company, the proposed final dividend will be paid on 21 May 2007 to shareholders whose name appear on the Company's register of members on 9 May 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4 May 2007 to 9 May 2007 (both days inclusive), during which period no transfer of shares can be registered. To qualify for the final dividend, payable on 21 May 2007, to be approved at the forthcoming annual general meeting of the Company, shareholders must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 pm. on 3 May 2007.

CODE ON CORPORATE GOVERNANCE PRACTICES

The shares of the Company were listed on the Main Board of the Stock Exchange on 13 July 2006. The Board believes that high standards of corporate governance are essential to the success of the Company and is committed to maintain a high level of corporate governance standards and practices. The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") since the Company's listing.

In addition, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors. The Company has made specific enquiries with all its directors regarding any non-compliance with the Model Code, and all the Directors confirmed that they have fully complied with the required standards as set out in the Model Code since the Company's listing.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2006, including the accounting principles and practices adopted by the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

PUBLICATION OF FINAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

This results announcement is published on the website of the Stock Exchange. The annual report for the year ended 31 December 2006 will be dispatched to shareholders and published on the website of the Stock Exchange in due course.

By order of the Board
Hembly International Holdings Limited
NGOK Yan Yu
Chairman

Hong Kong, 29 March 2007

As at the date of this announcement, the Board comprises six executive directors, namely Mr. NGOK Yan Yu, Mr. LAM Hon Keung, Keith, Ms. TANG Chui Yi, Janny, Mr. WONG Ming Yeung, Mr. PIVA Antonio and Mr. APPELLA Marcello, one non-executive director, namely, Mr. JE Kin Ming and three independent non-executive directors, namely, Mr. LO Ming Chi, Charles, Mr. PAO Ping Wing and Mr. KWAN Hung Sang, Francis.

Please also refer to the published version of this announcement in The Standard.