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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 2008

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 2008 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Revenue	3	**1,356,445**	1,036,956
Cost of sales		**(991,305)**	(697,206)
Gross profit		**365,140**	339,750
Fair value change of an investment property		**(3,371)**	13,249
Discount on acquisition of additional interest in a subsidiary		**4,922**	–
Other income	4	**20,545**	15,095
Administrative expenses		**(150,042)**	(134,107)
Distribution and selling costs		**(133,389)**	(63,518)
Impairment loss on goodwill	5	**(36,862)**	–
Impairment loss on intangible assets	5	**(2,138)**	–
Impairment loss on property, plant and equipment	5	**(23,425)**	–
Impairment loss on prepaid lease payments	5	**(2,405)**	–
Gain on change in fair value of conversion option derivative liability		**19,873**	–
Gain on disposal of a jointly controlled entity		**15,134**	–
Finance costs	6	**(58,207)**	(40,517)
Profit before tax	7	**15,775**	129,952
Income tax expense	8	**(14,301)**	(21,828)
Profit for the year		**1,474**	108,124

	Notes	**2008**	2007
		HK$'000	*HK$'000*
Attributable to:			
Equity holders of the Company		**7,798**	107,747
Minority interests		**(6,324)**	377
		1,474	108,124
Dividends recognised as distribution during the year	*9*	**28,303**	26,236
Earnings per share	*10*		
Basic		**HK2.76 cents**	HK40.32 cents
Diluted		**HK1.31 cents**	HK39.93 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment		**323,432**	230,983
Investment property		**29,885**	71,505
Intangible assets		**12,177**	10,186
Goodwill		**–**	20,800
Prepaid lease payments		**66,044**	64,911
Loan to a jointly controlled entity		**–**	5,168
Available-for-sale investments		**575**	2,870
Financial assets at fair value through profit or loss		**5,968**	–
Deferred tax assets		**626**	287
		438,707	406,710
Current assets			
Inventories		**291,844**	178,559
Trade receivables	*11*	**402,210**	243,759
Deposits, prepayments and other receivables		**59,999**	109,058
Prepaid lease payments		**1,497**	1,389
Loans to jointly controlled entities		**–**	8,273
Amount due from a minority shareholder		**–**	6,689
Amount due from a related company	*12*	**99,171**	174,388
Amounts due from jointly controlled entities		**12,417**	6,609
Amount due from a former jointly controlled entity		**918**	–
Available-for-sale investments		**3,021**	3,174
Pledged bank deposits		**41,719**	48,099
Bank deposits with original maturity of more than three months		**218,391**	313,767
Bank balances and cash		**48,969**	112,223
		1,180,156	1,205,987
Assets classified as held for sale		**25,380**	41,530
		1,205,536	1,247,517
Current liabilities			
Trade payables	*13*	**148,592**	131,260
Other payables and accruals		**157,609**	84,736
Loans from joint venturers of jointly controlled entities		**–**	13,441
Amounts due to joint venturers of jointly controlled entities		**9,155**	17,097
Amounts due to jointly controlled entities		**20,028**	5,812
Taxation payable		**32,894**	26,064
Obligations under finance leases – due within one year		**798**	910
Bank borrowings – due within one year		**345,932**	426,009
Bank overdrafts		**26,073**	607
		741,081	705,936
Liabilities associated with assets classified as held for sale		**25,113**	13,080
		766,194	719,016
Net current assets		**439,342**	528,501
Total assets less current liabilities		**878,049**	935,211

	Notes	2008 HK$'000	2007 HK$'000
Non-current liabilities			
Obligations under finance leases – due after one year		**1,219**	2,019
Bank borrowings – due after one year		**206,627**	257,128
Convertible redeemable preference shares		**79,292**	68,071
Conversion option derivative liability		**2,149**	22,022
Deferred tax liabilities		**6,492**	3,411
		295,779	352,651
		582,270	582,560
Capital and reserves			
Share capital		**28,303**	28,283
Reserves		**562,843**	546,624
Equity attributable to equity holders of the Company		**591,146**	574,907
Minority interests		**(8,876)**	7,653
		582,270	582,560

Notes:

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

In the current year, the Group has applied the following amendments to Hong Kong Accounting Standards ("HKAS") and interpretations ("HK(IFRIC) – Int") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on the results or financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been recognised.

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)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combination[3]
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segement[2]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 15	Accounting for Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[7]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2009

[3] Effective for annual periods beginning on or after 1 July 2009

[4] Effective for annual periods ending on or after 30 June 2009

[5] Effective for annual periods beginning on or after 1 July 2008

[6] Effective for annual periods beginning on or after 1 October 2008

[7] Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised) may affect the accounting for the Group's business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. HKAS 23 (Revised) requires borrowing costs related to qualifying assets of the Group to be capitalised prospectively. 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 results and financial positions of the Group.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two (2007: two) 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 businesses is presented below.

Year ended 31 December 2008

	Manufacture and sales of apparel and accessories *HK$'000*	Distribution and retailing of apparel and footwear *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE				
External sales	**1,094,892**	**261,553**	**–**	**1,356,445**
Inter-segment sales	**23,351**	**–**	**(23,351)**	**–**
Total	**1,118,243**	**261,553**	**(23,351)**	**1,356,445**

Inter-segment sales are charged at prevailing market rates.

RESULT				
Segment result	**98,194**	**(60,215)**	**–**	**37,979**
Unallocated income				**7,943**
Unallocated corporate expense				**(8,498)**
Gain on disposal of a jointly controlled entity				**15,134**
Fair value change of an investment property				**(3,371)**
Gain on change in fair value of conversion option derivative liability				**19,873**
Discount on acquisition of additional interest in a subsidiary				**4,922**
Finance costs				**(58,207)**
Profit before tax				**15,775**
Income tax expense				**(14,301)**
Profit for the year				**1,474**

Year ended 31 December 2007

	Manufacture and sales of apparel and accessories	Distribution and retailing of apparel and footwear	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
External sales	913,424	123,532	–	1,036,956
Inter-segment sales	7,381	–	(7,381)	–
Total	920,805	123,532	(7,381)	1,036,956

Inter-segment sales are charged at prevailing market rates.

RESULT				
Segment result	157,376	1,627	–	159,003
Unallocated income				8,076
Unallocated corporate expense				(9,859)
Fair value change of an investment property				13,249
Finance costs				(40,517)
Profit before tax				129,952
Income tax expense				(21,828)
Profit for the year				108,124

Geographical segments

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

	2008	2007
	HK$'000	*HK$'000*
Europe	**657,982**	722,370
The PRC	**645,737**	270,699
Others	**52,726**	43,887
	1,356,445	1,036,956

3. REVENUE

	2008	2007
	HK$'000	*HK$'000*
Manufacture and sales of apparel and accessories	**1,094,892**	913,424
Distribution and retailing of apparel and footwear	**261,553**	123,532
	1,356,445	1,036,956

4. OTHER INCOME

	2008	2007
	HK$'000	*HK$'000*
Bank interest income	**7,792**	7,482
Interest income from a jointly controlled entity	**124**	371
Total interest income	**7,916**	7,853
Net exchange gain	**950**	–
Delivery charge received from customers and suppliers	**3**	89
Gain on disposal of available-for sale investments	**168**	278
Management fee income from jointly controlled entities	**1,415**	2,276
Management fee income from outsiders	**3,989**	1,214
Management fee income from a related company	**990**	–
Reversal of impairment loss on loans to jointly controlled entities	**–**	677
Royalty fee income	**150**	385
Sale of raw materials	**1,749**	745
Sundry income	**3,215**	1,578
	20,545	15,095

5. IMPAIRMENT LOSS ON GOODWILL/INTANGIBLE ASSETS/PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

On 3 December 2008, the Company entered into a conditional sale agreement to dispose of 100% equity interest in Well Metro for cash consideration of HK$100 million. The disposal is subject to the approval by independent shareholders at an extraordinary general meeting.

An impairment loss has been recognised for the cash generating unit ("CGU") as the recoverable amount of the CGU, determined based on the cash consideration of HK$100 million, is less than its net carrying amount. The impairment loss was allocated to reduce the carrying amount of assets of the CGU in the following order:

(a) first, to reduce the carrying amount of goodwill of HK$36,862,000 allocated to the CGU; and

(b) then, to the non-current assets of the CGU pro rata on the basis of the carrying amount of intangible assets, property, plant and equipment and prepaid lease payments of the CGU of HK$2,138,000, HK$23,425,000 and HK$2,405,000, respectively.

6. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings and overdrafts wholly repayable		
– within five years	**46,550**	39,705
– over five years	**–**	307
Convertible redeemable preference shares	**11,221**	–
Obligations under finance leases	**136**	134
Loans from joint venturers of jointly controlled entities	**300**	371
	58,207	40,517

7. PROFIT BEFORE TAX

	2008	2007
	HK$'000	*HK$'000*
Profit before tax has been arrived at after charging:		
Auditors' remuneration		
– Current year	**1,757**	1,822
– Underprovision of prior year	**274**	–
Cost of inventories recognised as an expense	**990,988**	695,531
Amortisation of intangible assets	**2,409**	631
Depreciation of property, plant and equipment	**29,218**	15,007
Amortisation of prepaid lease payments	**1,463**	1,278
Allowance for inventories	**317**	1,675
Impairment loss recognised in respect of trade receivables	**1,234**	3,226
Loss on disposal of property, plant and equipment	**1,443**	1,061
Change in fair value on financial assets at fair value through profit or loss	**194**	–
Net exchange loss	**–**	579
Staff costs		
– directors' remuneration	**15,709**	12,372
– other staff costs	**94,005**	71,032
– share-based payments excluding directors	**1,101**	3,269
– retirement benefit scheme contribution excluding directors	**7,456**	4,647
	118,271	91,320

8. INCOME TAX EXPENSE

	2008	2007
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**20**	16
Other jurisdictions	**13,512**	18,755
	13,532	18,771
(Over)under provision in prior years:		
Hong Kong	**(12)**	94
Other jurisdictions	**(1,137)**	(72)
	(1,149)	22
Deferred tax:		
Current year	**1,918**	3,035
	14,301	21,828

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

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

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC have changed to 25% from 1 January 2008 onwards (2007: preferential tax rate of 24%).

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 ("Tax Incentive"). Accordingly, tax provision for these subsidiaries have been provided for after taking into account of these tax exemption and tax concession during the years ended 31 December 2008 and 2007, respectively.

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

	2008	2007
	HK$'000	*HK$'000*
Profit before tax	**15,775**	129,952
Tax at the domestic income tax rate of 25% (2007: 24%) *(Note)*	**3,944**	31,189
Deferred tax on distributable earnings of PRC subsidiaries and jointly controlled entities	**3,926**	–
Tax effect of expenses not deductible for tax purpose	**24,455**	5,716
Tax effect of income not taxable for tax purpose	**(13,847)**	(21,979)
Tax effect on tax concession	**(10,744)**	(7,934)
Effect of different tax rates of subsidiaries operating in other jurisdictions other than PRC subsidiaries	**378**	1,034
Tax effect of tax losses not recognised	**9,147**	14,190
Utilisation of other deductible temporary differences not recognised	**(1,944)**	(224)
Net (over)underprovision in prior years	**(1,149)**	22
Others	**135**	(186)
Income tax expense for the year	**14,301**	21,828

Note: Majority of the operation of the Group is operated by its PRC subsidiaries which entitle to tax rate of 25% (2007: preferential tax rate of 24%).

9. DIVIDENDS

	2008	2007
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
Interim dividend of HK3 cents per share (2007: HK3 cents)	**8,491**	8,479
2007 final dividend of HK7 cents per share (2007: 2006 final dividend HK7 cents)	**19,812**	17,757
	28,303	26,236

The directors do not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: final dividend HK7 cents).

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

Earnings

	2008	2007
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share	**7,798**	107,747
Adjustment to the share of profit of a subsidiary based on potential dilution of its earnings per share in respect of convertible preference shares	**(4,100)**	(372)
Earnings for the purpose of diluted earnings per share	**3,698**	107,375

	Number of shares	
	2008	2007
	'000	*'000*
	(Note)	*(Note)*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**283,026**	267,204
Effect of dilutive potential ordinary shares for share options	**9**	1,717
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**283,035**	268,921

Note: The weighted number of ordinary shares for the purpose of basic earnings per share has not been adjusted for the open offer of shares as the subscription price per offer is higher than the share price immediately before the subscription date.

The computation of diluted earnings per share does not assume the exercise of certain outstanding share options as the respective exercise price is higher than the applicable average market price for year 2008 and 2007.

11. TRADE RECEIVABLES

	2008	2007
	HK$'000	*HK$'000*
Trade receivables	**409,337**	247,156
Less: allowance for doubtful debts	**(4,585)**	(3,397)
	404,752	243,759
Less: Reclassified to assets held for sale	**(2,542)**	–
	402,210	243,759

The Group allows an average credit periods normally ranging from 60 days to 90 days after invoice date to its trade customers.

The aged analysis of trade receivables (net of impairment) at the balance sheet dates is as follows:

	2008	2007
	HK$'000	*HK$'000*
0 – 90 days	**337,606**	223,661
91 – 180 days	**56,551**	8,810
181 – 360 days	**9,307**	9,834
Over 360 days	**1,288**	1,454
	404,752	243,759

Before accepting any new customer, the Group assesses the potential customer's credit quality by respective sales team and defines credit limit by customer.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$50,950,000 (2007: HK$31,545,000) which are past due at 31 December 2008 for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

12. AMOUNT DUE FROM A RELATED COMPANY

	2008	2007
Name of related company	***HK$'000***	*HK$'000*
Sergio Tacchini International S.P.A. (formerly known as H4T S.r.l.) *(Note)*	**99,171**	174,388

Note: Mr. Ngok Yan Yu, a director and major shareholder of the Company, has beneficial interests in this company.

The above amount represents trade receivable which is unsecured, interest free and the Group allows a credit period of 120 days.

The aged analysis of the amount due from this related company (net of impairment) at the balance sheet date is as follows:

	2008	2007
	HK$'000	*HK$'000*
0 – 90 days	**37,523**	83,132
91 – 180 days	**7,476**	85,036
181 – 360 days	**54,172**	6,220
Total	**99,171**	174,388

Included in the Group's amount due from a related company is aggregate carrying amount of HK$60,768,000 (2007: HK$20,070,000) which is past due at 31 December 2008 for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amount is still considered recoverable. The Group does not hold any collateral over the balance.

13. TRADE PAYABLES

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

	2008	2007
	HK$'000	*HK$'000*
0 – 90 days	**104,953**	111,138
91 – 180 days	**27,364**	15,138
181 – 360 days	**11,603**	4,446
Over 360 days	**4,980**	538
	148,900	131,260
Less: Reclassified to liabilities associated with assets classified as held for sale	**(308)**	–
	148,592	131,260

The average credit period on purchases of goods is 90 days.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Overview

The Group's revenue reached approximately HK$1,356.4 million, representing an increase of 30.8% over last year. The net profit attributable to the Company's equity holders amounted to approximately HK$7.8 million for the year under review, given provisions for impairment for the aggregate approximate amount of HK$64.8 million were made, as called upon by the Company's conditional disposal of its share at Well Metro Group Limited and its subsidiaries (collectively "Well Metro Group"). For reference, Well Metro Group is the distribution and retailing business arm of the Group.

Given the course global market conditions, which calls for the need for prudent allocation of resources, the Board does not recommend the payment of a final dividend for the year ended 31 December 2008. Thus, the interim dividend of HK3.0 cents per share paid on 6 November 2008 represented the total dividend of HK3.0 cents per share paid for the year 2008.

Supply Chain Services

Against the backdrop of a global financial credit crunch amidst looming universal recession, Hembly, like all other businesses, is facing an increasingly challenging operating environment.

In full awareness of the challenges ahead, Hembly remained committed to develop our supply chain core business and had, during the year under review, equipped ourselves with more value added supply chain services, which successfully increased our customers' network. These measures allowed Hembly a "softer" landing, amidst the current market downturn. On the upside, the harsh global market demands for luxury brands to stringently control their costs without fail. This demand, which leaves no stones unturned, gave all luxury brands the impetus to actively seek out Asian suppliers, who can meet their demand for the resources, network and expertise in apparel supply chain services. Hembly's established track record in China's sourcing/supply chain, naturally positioned it to capture these correspondingly increased orders. As a result, the Group enjoyed a robust increase in orders from existing customers as well as new customers during the year under review.

During the year under review, the Group's revenue for supply chain services reached approximately HK$1,094.9 million, representing an increase of approximately 19.9%, as compared to last year, which accounted for approximately 80.7% of the Group's revenue in the financial year 2008. The aforementioned supply chain revenue increase for the year is mainly attributable to an upsurge of supply chain services provided by the Group to our branded customers' domestic PRC distribution network and to PRC import and export corporations.

Amidst increased raw material/labor costs, utility costs, textile trading regulatory changes (decreased export rebate rate) and pricing pressures exerted by RMB appreciation, the Group's gross profit for supply chain services dropped from 30.7% as of last year to 22.3% for the year under review.

Meanwhile, Hembly's well orchestrated dual operation model, which combines outsource production management and in-house manufacturing, has indeed allowed the Group to work through the global credit crunch. This dual operation model has clearly allowed the Group to, at a much lower capital production expenditure cost, offers its customers a much wider range of products to choose from, according to their needs. This inbuilt flexibility had facilitated Hembly to outperform its competitors in a swift and spontaneous way, which spontaneity is a key winning crucial amidst an ever-fluctuating market environment.

Where silver linings are concerned, the current global market trends do offer the Group vast new opportunities. In times of financial turmoil, stringent production cost control and sourcing capabilities become crucial. The Group's scalability and extensive PRC sourcing networks clearly outstand it as the most reliable partner within the China sourcing world for all European brands, especially when they have less competing partners to choose from given harsh economic times. In response to rising material costs, Hembly has actively increased the sourcing of raw materials from within China, whilst supplementing these materials via advanced technologies, which the Group has acquired from Europe. These measures had definitely increased the Group's operation efficiencies.

In light of the current market situation, the China government has further announced an increase in export rebate rates in the second half of 2008, with a view to support the industry. This is a great news for Hembly, as we are optimistic that these new regulations will surely benefit the Group in year 2009.

As our supply chain services remain the main pillar behind the Group's success, Hembly will continue to focus its resources and manpower to maximize our competitiveness in this area.

To strengthen the Group's supply chain services, Hembly has, on 14 November 2008, announced its conditional renewal of its sourcing agreement with Sergio Tacchini for another three years ending 31 December 2011. This agreement was approved by its shareholders at its extraordinary general meeting held on 30 December, 2008.

Distribution and Retailing Businesses

Though the Group's distribution and retailing businesses continued to benefit from a favorable business environment in the first half of year 2008, the Group shouldered great operating pressure from the poor economic environment, which decreased consumers' purchasing confidence in the second half year.

During the year under review, revenue for the Group's distribution and retailing businesses totaled approximately HK$261.6 million, recording a growth of approximately 111.7%, as compared to last year and this accounted for approximately 19.3% of the Group's revenue. Gross margin reached approximately 46.1%.

To better allocate resources, Hembly purchased, from Stonefly its 50% shareholding in the 50:50 Stonefly joint venture and sold its 50% shareholding within the Lotto joint venture to Lotto. The gain on disposal of the Lotto joint venture accrued to the Group was in the amount of approximately HK$15.1 million. By the same token, the Group has, as of 1 January 2009, sold its 50% shareholding in the 50:50 Sisley joint venture back to Benetton S.p.A..

During the year under review, the gross margin of the Sisley joint venture, the gross margin of Stonefly and the gross margin of Moschino are approximately 55.3%, 48.8% and 58.6% respectively.

Prospect

Throughout the years, Hembly's supply chain business has remained the number one contributor to the Group's financial and operation performances. With a vision towards vertical integration, the Company had allocated resources to develop its distribution and retailing businesses in China so as to leveraging on China's sharp economic growth during the past 2 years.

Notwithstanding the Group's vision towards vertical integration, the unexpected global financial melt-down had adversely affected all industries, with luxury businesses being its casualties.

In light of the current market conditions, the Board views that it is of paramount importance that the Group should exercise stringent control of its financial resources at hand. Having appraised the Group's principal supply chain business focus, the Board took the view that in the current difficult times, it is not in its best interest to devote valuable time and financial resources to its distribution and retailing arm (namely via the Well Metro Group), which would in turn divert the Group's resources in its principal business. As such, on 3 December, 2008, the Group and its wholly-owned subsidiary, Spring

Castle Group Limited ("Spring Castle"), entered into the conditional sale and purchase agreement with Primewill Investments Limited ("Primewill"), an associate of New World Development Company Limited, pursuant to which the Group conditionally disposed to Primewill its share at Well Metro Group Limited ("Well Metro"), the investment holding company which holds the subsidiaries engaged in business of distribution and retailing of apparel and accessories in the PRC for an aggregate cash consideration of HK$100,000,000. This agreement may became conditional in May 2009 subject to Hembly's independent shareholders' approval at an extraordinary general meeting of Hembly. Subject to the approval of independent shareholders and all necessary approvals from relevant government authorities, the aforesaid conditional disposal is expected to complete by the end of May 2009.

The net proceeds from the aforesaid condition disposal will enhance the liquidity of the Group and enable the Group to, upon due completion of the aforesaid conditional disposal, focus on its principal engagement in the provision of supply chain services for apparel and accessories to international brand apparel makers.

Going forward, the supply chain services provided by the Group will continue to include product design, laboratory testing, production management (ie. outsourcing and in-house manufacturing), quality assurance, packaging and logistics management for the supply of apparel and accessories. The Group's major customers will continue to include United Colors of Bennetton, Sisley, Moschino, See by Chloé, R.E.D. Valentino, DKNY Jeans, Diesel, Quiksilver, Lafuma, Lotto, Salewa and Sergio Tacchini.

With full attention and focus on the Group's core business, the Directors expect the Group's leading supply chain services will continue to achieve satisfactory results despite severe business environment. Further, the Group's value added supply chain services, which ride on Europe's outsourcing trend, will continue to enhance the Group's competitiveness in the market in the coming year.

Operating Expenses

In 2008, the Group's distribution and selling expenses increased significantly by 110.0% to HK$133.3 million, as compared to last year, which as a percentage of revenue, increased from 6.1% to 9.8%. This substantial increase was principally attributable to increased freight charges, shop rental, staff costs and depreciation charges. This substantial increase was especially steep when compared to last year given the Group only launched the brands of Sisley and Moschino during the fourth quarter of last year. As such, more related distribution and selling costs would naturally have been incurred by the Group within the year under review than compared with last year. Retailing attracts a higher selling expense component, as compared to supply chain services, because retailing includes also advertising, sponsorship and promotional expenses, salaries and benefits of sales staff, rental and renovation expenses of retail stores as well as transportation and logistics expenses.

The Group's administrative expenses increased by 11.9% from HK$134.1 million to HK$150.0 million. This increase is mainly attributable to its increased staff costs. Higher expenses in staff salaries and emoluments also contributed to the increase in administrative expenses. With astute expenditure management, the Group's administrative expenses, which as a percentage of revenue, decreased from 12.9% last year to 11.1% this year, earmarking the Group's improved operational efficiency.

Finance Costs

Finance costs increased by 43.7% to HK$58.2 million, as compared to last year. This substantial increase is mainly attributable to the Group's increased bank borrowings. Meanwhile, for the year under review, the Group also bore an additional finance cost of approximately HK$11.2 million, representing the effective interest expense on the convertible redeemable preference shares issued at Well Metro, which issuance was made in December 2007.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2008, the Group had cash and cash balances of HK$309.1 million, primarily denominated in RMB and HK dollars (31 December 2007: HK$474.1 million), and total bank borrowings of HK$578.6 (31 December 2007: HK$683.7 million), of which 64.3% constitute short-term bank borrowings and 35.7% long-term bank borrowings. The Group's bank borrowings was primarily denominated in RMB, HK dollars and US dollars. As at 31 December 2008, 35.6%, 37.2%, and 27.2% of the Group's total bank borrowings were denominated in RMB, HK dollars and US dollars, respectively, with 36.0% of the total bank borrowing subject to fixed interest rates and 64.0% subject to floating interest rates.

The net gearing ratio, which is calculated on the basis of total bank borrowings (net of cash and bank balances) over the Group's total shareholders' equity, increased from 0.36 as at 31 December 2007 to 0.45 as at 31 December 2008. The current ratio, which is calculated on the basis of current assets over current liabilities, decreased from 1.74 as at 31 December 2007 to 1.57 as at 31 December 2008.

The interest coverage for this year, expressed as a quotient of EBITDA over interest expenses, was 1.84, which is considered a comfortable level.

FOREIGN EXCHANGE EXPOSURE

The Group's sales were mostly denominated in US dollars and RMB, while the purchase and operating expenses were mostly denominated in RMB and HK dollars. The Group's exposure to RMB and US dollars fluctuation is balanced by RMB receipt from its PRC supply chain and distribution and retail sales and US dollar receipt from its supply chain related export sales. To minimize possible foreign currency fluctuation, related loss and maximize possible RMB appreciation profit, the Group adopts stringent internal hedging policies, which, during the year, had the strategy of holding the Group's majority monetary assets in RMB. During the year, the Group has adopted no formal hedging policies and no instruments have been applied for foreign currency hedging purposes. The management will continue to monitor the foreign exchange exposure flexibly and engage in timely and appropriate hedging activities when needed.

Thus, the Group will continue to be exposed to foreign currency exchange risks, although material currency fluctuation related operational impact is not anticipated to take place in future.

CHARGES ON ASSETS

As at 31 December 2008, the Group's bank deposits of HK$ 41.7 million, available for sale securities of HK$2.8 million, financial assets at fair value through profit or loss of HK$6.0 million, property, plant and equipment with an aggregate net book value of HK$188.2 million, investment property at fair value of HK$29.9 million, and land use rights with an aggregate net book value of HK$67.6 million were pledged to secure general banking facilities and bank borrowings granted to the Group.

CAPITAL COMMITMENT

As at 31 December 2008, the Group had capital commitment of HK$8.9 million in respect of acquisition of property, plant and equipment, which were contracted but not provided for in the consolidated financial statements.

CONTINGENT LIABILITIES

As at 31 December 2008, the Group had no material contingent liabilities.

EMPLOYMENT INFORMATION

As at 31 December 2008, the Group had about 2,165 employees in total, stationed mainly in the PRC, Hong Kong and Europe. The Group's emolument policies, which are reviewed periodically, are linked to the performance of individual employees and are based on 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 contributions.

DIVIDEND

Given the course global market conditions, which calls for the need for prudent allocation of resources, the Board does not recommend the payment of a final dividend for the year ended 31 December 2008. Thus, the interim dividend of HK3.0 cents per share paid on 6 November 2008 represented the total dividend of HK3.0 cents per share paid for the year 2008.

CODE ON CORPORATE PRACTICES

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") for the year ended 31 December 2008.

In addition, the Company has adopted the Model Code of Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of 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 the Directors regarding any compliance of 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 2008, 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 under review.

PUBLICATION OF FINAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

This result announcement is published on the website of the Stock Exchange at www.hkex.com.hk and on the Company's website at www.hembly.com. The annual report for the year ended 31 December 2008 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, 3rd April 2009

As at the date of this announcement, the Board of the Company comprises five executive directors, namely, Mr. Ngok Yan Yu, Mr. Lam Hon Keung, Keith, Ms. Tang Chui Yi, Janny, Mr. Wong Ming Yeung and Mr. Marcello Appella; two non-executive directors, namely, Mr. Antonio Piva and Mr. Je Kin Ming; three independent non-executive directors, namely, Mr. Lo Ming Chi, Charles, Mr. Pao Ping Wing and Mr. Kwan Hung Sang, Francis.