Annual Report 2007

Mainland Headwear Holdings Limited

(Stock Code : 1100)

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Ngan Hei Keung *(Chairman)*
Madam Ngan Po Ling, Pauline
(Deputy Chairman and Managing Director)
Mr. Cheung Wai Ching *(Chief Executive Officer)*

Non-executive Director

Mr. Tse Kam Fow

Independent Non-executive Directors

Mr. Leung Shu Yin, William
Mr. Lo Hang Fong
Mr. Liu Tieh Ching, Brandon, JP

COMPANY SECRETARY

Ms. Chan Hoi Ying

AUDITORS

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong.

PRINCIPAL BANKER

Hang Seng Bank Limited

REGISTERED OFFICE

Clarendon House,
2 Church Street,
Hamilton HM11,
Bermuda.

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1001-1005, 10th Floor,
Tower 2, Enterprise Square I,
9 Sheung Yuet Road,
Kowloon Bay,
Kowloon,
Hong Kong.

BERMUDA SHARE REGISTRAR

The Bank of Bermuda Limited
Bank of Bermuda Building,
6 Front Street,
Hamilton HM11,
Bermuda.

HONG KONG BRANCH SHARE REGISTRAR

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

COMPANY WEBSITES

http://www.mainland.com.hk

Mr. Ngan Hei Keung
Chairman
Madam Pauline Ngan
Deputy Chairman and Managing Director

On behalf of the Board of Directors of Mainland Headwear Holdings Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively, "Mainland Headwear" or the "Group") for the year ended 31 December 2007.

BUSINESS REVIEW AND PROSPECTS

Overview

With the US economy slowing down, the RMB on constant appreciation, and the rapid rising of wages and raw materials, 2007 was a year fraught with challenges, particularly for the Manufacturing Business.

To mitigate the negative impacts of those challenges, the Group implemented a series of strategic measures for its Manufacturing Business. Panyu factory underwent a dramatic restructure aiming for a significant improvement in operational efficiency. Its trading arm in Europe took a very proactive marketing approach to make foray in the private label and brand business from large-scale European retailers for the Manufacturing Business and forged strategic partnership with many renowned European department stores.

As for the Group's Trading Business, it focused on raising gross margin by expanding high gross-margin businesses, applying stringent cost control and actively improving operational efficiency.

For the Retail Business, the Group spared no effort in expanding the operation of Sanrio and LIDS in the People's Republic of China ("The PRC"), focusing on pushing sales of products with better margins and enlarging the franchise operation. As a result, the business reported a markedly narrowed operating loss for the year.

In March 2007, the Group obtained the worldwide exclusive manufacturing rights and exclusive distribution rights in Greater China and Japan for The Fédération Internationale de Football Association ("FIFA") branded headwear from Global Brands Group, the worldwide Master Licensee and store operator for FIFA. Valid between 2007 and 2014, these exclusive partnership arrangements have paved the way for the Group to grow its event-based business.

CHAIRMAN'S STATEMENT

Financial Review

For the year ended 31 December 2007, the Group made a turnover of HK$539,041,000, down 27% against last year, attributable mainly to the disposal of the subsidiary, Drew Pearson Marketing Inc. ("DPM"). Excluding the disposal, turnover of the Group from continuing business had a 12% increase, bolstered mainly by the expanded Retail Business.

Turnover of the Manufacturing Business dropped mainly because Concept One, the buyer of DPM, failed to fulfill the minimum annual purchase of US$20 million to US$35 million (or 65% of Concept One's total annual purchase if it is lower), one of the conditions in the 7-year manufacturing agreement signed with the Group on 1 May 2007. The Group has taken appropriate legal actions to recover related financial losses.

The disposal of DPM also explained the decline in turnover of Trading Business.

With the decline of gross margin of the Manufacturing Business, the Group's overall gross margin also decreased from 35% to 32%. Taking into account of the one-off gain adjustment of HK$5,475,000 from the disposal of assets and liabilities of the discontinued DPM operation, the Group's profit attributable to shareholders was HK$41,702,000 for the year (2006: HK$86,970,000). The drop against last year reflected the reduced turnover and gross margin of Manufacturing Business.

Retail Business, however, reported very encouraging performance having advanced from the investment phase into the growth phase. It was able to narrow operating loss notably from HK$13,381,000 last year to HK$3,599,000, and Sanrio operation, for the first time, reported profit of HK$553,000.

Manufacturing Business

Manufacturing Business continued to be the Group's major revenue contributor during the year under review. However, since Concept One did not fulfill its end of the manufacturing agreement, business of the Shenzhen factory was less than projected. That plus impact of external factors, such as slowdown of the US market, appreciation of the RMB and wage and material costs surge, hampered the overall performance of the Manufacturing Business. Turnover of the business dropped 15% against last year to HK$396,071,000, and gross margin was also down from 30% to 24%.

After a six-month review and operation, restructuring of Panyu factory began on 1 April 2007 and remarkable results were achieved, in terms of much improved operational efficiency and a notably broadened customer-base. The factory's operating loss for the year lowered tremendously, with marked improvement of performance in the second half year nearing breakeven.

Furthermore, building on the solid relationship between its European trading arm and major retailers, the Group actively explored opportunities in private label business with large scale retailers in Europe. In 2007, the Group forged strategic partnership with many renowned European department stores including H&M, Umbro and two key sports-chained stores in UK, enabling it to effectively raise market share and capture growth potential in Europe, thus eased to some extent external pressures on the Manufacturing Business.

In March 2007, the Group obtained the worldwide exclusive manufacturing rights and exclusive distribution rights in Greater China and Japan for FIFA branded headwear from Global Brands Group, the worldwide Master Licensee and store operator for FIFA. The exclusive rights, applicable between 2007 and 2014, have strengthened the clout of the Group's Manufacturing Business and given it a solid springboard for seizing business opportunities presented by international sports tournaments and large events.

Retail Business

Retail Business saw major improvement and reported satisfactory performance in 2007. Its turnover leaped 46% to HK$107,798,000 and accounted for 20% of the Group's total turnover, against 10% last year. The impressive surges were the result of rapid expansion of the Sanrio operation. Having moved into the harvest stage from the investment stage, the segment boasted continuous improvement during the year with the Sanrio operation, in particular, recording operating profit for the first time.

Sanrio Operation

Sanrio operation delivered encouraging performance in the year under review. Its turnover surged by 73% against last year to HK$75,458,000. Same-store sales grew by 36%. The business achieved operating profit of HK$553,000 for the first time.

To raise the operation's profit margin, the Group increased the share of its own design products with higher margins in the total sales mix from 13% last year to 39% this year, resulting in an about 2 percentage points rise in gross profit margin of the operation.

To facilitate expansion of the Sanrio operation, apart from strengthening the brand's existing network in first-tier cities, the Group also extended its business footprint to major cities in central China such as Chongqing and Chengdu, etc. During the year, the Group opened 5 new self-owned Sanrio stores, including 2 "K Star" specialty stores in Shanghai which carry higher-margin Sanrio cartoon characters jewelry accessories. Capitalising on the reputation and premium image of "Sanrio", the Group also attracted many franchisees into its sales network. As at 31 December 2007, it had 49 self-owned Sanrio stores and 57 franchise stores in operation, among which 27 were opened in the period under review.

In April 2007, the Group signed a subscription agreement to increase stake in the non-wholly owned subsidiary, Futureview Investment Limited ("Futureview Investment"), which operates the Sanrio business. At a cash consideration of HK$5,000,000, it increased its stake in Futureview Investment from 51% to 75%, which has enabled it to operate the Sanrio operation more efficiently and cost-effectively.

LIDS Operation

Turnover of the business grew by 8% to HK$32,340,000 in the year under review, with operating loss narrowed by 25% to HK$4,152,000 and same-store sales grew by 8% against last year.

Facing rising rental and operational costs in Hong Kong, the Group closed two shops in Hong Kong during the year. The move plus continued effort of the Group to raise the proportion of own brand products with higher margins in the total sales mix of the business from 19% to 29% pushed up the gross profit margin of the business.

In the PRC market, the Group continued to expand the business through franchising, adding 6 new stores in the year under review.

As at 31 December 2007, the Group had 30 LIDS self-owned stores in operation, 23 in the PRC and 7 in Hong Kong. In addition, it had 19 LIDS franchise stories in the PRC, 6 of which were added during the year under review.

Trading Business

During the year under review, because of the disposal of DPM, the segment's turnover had an 84% decline to HK$50,463,000. Nevertheless, thanks to the Group's effective cost control and efficiency enhancement efforts and appreciation of the Pound Sterling, the trading arm lowered operational cost and achieved a higher gross margin, resulting in a profit of HK$7,133,000, a near double of last year's.

Leveraging the trading arm's strong relationship with major European retailers, the Group was able to seize opportunities in private label business for the Manufacturing Business and forged strategic partnership with many renowned European department stores, creating synergies for its different operations.

Prospects

Looking ahead, the headwear industry will continue to be challenged by factors such as the weakening economy and changing consumption behaviour in the US, appreciation of the RMB and rising material and production costs. However, the Group has in place clear and focused combative strategies and is determined to grasp the huge opportunities presented by the Beijing 2008 Olympic Games and in the booming Chinese economy. With extensive experience in licensed production and distribution, the Group is also confident of capturing opportunities presented to the manufacturing and retail sectors by international sports tournaments and major events. With its investment in Retail Business starting to bear fruits and other businesses demonstrating bright prospects, the Group believes it will triumph over adversity and deliver improved results in 2008.

Manufacturing Business

Economic uncertainties in the US have changed consumption behaviour in the market. To cope with the trend, apart from strengthening relationship with existing large retail chains, the Group also rallied smaller retail outlets to join its expanding sales network in the market.

The Group will also continue to expand business in Europe through its trading arm and grab more opportunities to forge strategic partnership with large European department stores. The Group aims to become one of the major headwear suppliers in Europe in the next two years.

Furthermore, riding on its status as the main authorised headwear manufacturer and distributor for the Beijing 2008 Olympic Games, the Group has worked hard to seize related opportunities. In the advent of the global sports event and related activities, the Group expects to see orders rocket in the next few months, which will significantly boost the profitability of the Manufacturing Business.

Furthermore, the Group will actively seek to engage internationally renowned brands as cooperative partners and raise operational efficiency and productivity to brace development of the Manufacturing Business. In January 2008, the Group formed a joint venture with Yue Yuen Industrial (Holdings) Limited ("Yue Yuen Group") and Large Forever Limited to invest in Keen Idea Group Ltd., a headwear manufacturer based in Vietnam, at a total consideration of US$2,880,000. With 36% stake, the Group is the largest shareholder in the joint venture. With production cost rising persistently in the PRC, the Group believes having production bases spread out in different locations can ensure its cost advantage and overall competitiveness, in addition to increasing production capacity and giving major customers choices of production facility. Apart from giving the Group an immediate foothold in Vietnam, the strategic joint venture is expected to also present cooperation opportunities between the Group and Yue Yuen Group in the Retail Business sector.

At the same time, the Group has introduced the proven LEAN production management model of Yue Yuen Group to its manufacturing facilities to help them streamline management structure, raise operational and production efficiency, and lower cost and heighten gross margin. The Group expects the effort and the new Vietnam operation to boost its total production capacity considerably for catering anticipated surging orders.

The Group will also keep improving the operational efficiency and widening the customer base of the Panyu factory, targeting for it to achieve breakeven in 2008.

Trading Business

The Group's trading arm will continue to focus on growing high-margin business and achieving higher operational and cost efficiency in 2008. The business will also ride on its strong business relations to help the Group's Manufacturing Business to grow its customer base and create greater yet synergies for the Group.

Retail Business

The Group expects its Retail Business to start harvesting return on investment in 2008.

Sanrio Operation

The Group will continue to invest resources in enhancing the Sanrio brand and market acceptance of the brand, so as to attract more potential franchisees and achieve rapid growth of the business.

Furthermore, by capitalising on the Sanrio Vivitix stores and Gift Gate Jungle Stores targeting working females and kids respectively, the Group will strive to capture and strengthen the two markets. The Group is confident of winning the hearts of other groups of customers by continuing to introduce new and attractive Sanrio cartoon characters.

The Group will open new Gift Gate Jungle Stores and other specialty stores in first-tier cities like Shanghai, selling products of different high margin concept designs to meet market demand.

To meet the specific needs of the different markets with different tastes in the expanded business footprint and raise return on sales, the Group has started to embark on shop-oriented procurement. The policy will allow all shops to keep optimum stock.

In the coming year, the Group will focus on product development, including strengthening the design team, aiming to enhance the design capability on self-developed high-margin products. In addition, the Group will extend the reach of its operation into wholesale business.

Last but not least, to cope with the rapid growth of the business, the Group will invest resources in staff training on Franchisee Management, Sales Management, Display Management and Logistics Management to maximize operational efficiency.

LIDS Operation

In 2008, the Group will seek to boost profit by shifting its focus from OEM and ODM production to producing more own brand products (OBM). It will launch more stylish headwear and hip hop sports headwear lines with higher margins under its own brands. By nurturing hybrid markets, the Group expects to reach more of different customer groups.

To boost profitability, the Group will continue to increase the proportion of own brand products in the total sales mix and seek to develop the wholesale business sector.

Apart from developing own brand products, it will also explore cooperation opportunities with internationally renowned brands to maintain the Group's industry leadership.

Facing high rental and operational cost in Hong Kong, the Group will conduct business in the city with prudence. In the PRC, it will seek to grow through franchising. Furthermore, the Group will look for opportunities to diversify its sales channels so as to further growth of LIDS business.

Others

In January 2008, aiming to grasp opportunities brought by the Beijing 2008 Olympic Games, the Group acquired 100% stake of a travel souvenir retailer in Beijing (北京疊翠旅遊紀念品有限責任公司), which operates a strong retail network with about 200 shops for the licensed Olympic products in the PRC, at a total investment cost of RMB26,000,000. The acquisition has not only presented an additional source of revenue to the Group, but has also immediately expanded the Group's retail presence to a host of very popular sightseeing spots in mainland China. The deal has extended the Group's Retail Business to cover travel souvenirs and given Sanrio and LIDS an additional retail platform and synergistic benefits to the Group.

ACKNOWLEDGEMENT

The Group will continue to work diligently to improve turnover and profit growth, with the aim of generating lucrative returns for our shareholders whose support, along with that of dedicated staff members, loyal customers and suppliers is key to the Group's remarkable success. On behalf of Mainland Headwear, I would like to express my heartfelt gratitude to all stakeholders for their invaluable contribution to the continued success of the business.

Ngan Hei Keung
Chairman

Hong Kong
15 April 2008

Vietnam Factory

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group had cash, bank balances and a portfolio of liquid investments totalling HK$177.5 million (2006: HK$139.2 million). About 72% and 20% of these liquid funds were denominated in US dollars and Renminbi respectively and the remainder mainly in HK dollars and Pound Sterling. The increase in the balance of liquid funds was mainly attributable to the consideration of the disposal of assets and liabilities of a subsidiary.

In late December 2006, the Group disposed of the business and related assets and liabilities of Drew Pearson Marketing Inc. ("DPM"), a wholly owned subsidiary of the Group. The consideration of the disposal of about HK$62 million was received in 2007.

As at 31 December 2007, the Group had banking facilities of HK$102.0 million (2006: HK$67 million), of which HK$100.4 million (2006: HK$60.4 million) was not utilised.

The Group continued to maintain its gearing ratio (being the Group's net borrowings over total equity) at zero. In view of the strong financial and liquidity position, it is evident that the Group will have sufficient financial resources to meet its commitments and working capital requirements.

ACQUISITION OF ADDITIONAL 24% INTERESTS IN A NON WHOLLY-OWNED SUBSIDIARY

In April 2007, the Group entered into a subscription agreement to increase its shareholdings in Futureview Investment Limited, a non wholly-owned subsidiary of the Group operating the Sanrio business, from 51% to 75% at a cash consideration of HK$5,000,000. The subscription would enable the Group to manage the operation in a more effective and efficient manner.

CAPITAL EXPENDITURE

During the year, the Group spent approximately HK$33.2 million (2006: HK$16.8 million) on the construction of an additional factory building, which was almost completed at the end of 2007, and additions to plant and equipment to upgrade its manufacturing capability. The Group had also spent HK$2.8 million (2006: HK$6.6 million) on the retail systems and opening of new retail stores in 2007.

For the year 2008, the Group has budgeted HK$10.6 million in the acquisition of a subsidiary in the PRC. Besides, the Group has budgeted HK$7.3 million for capital expenditure to enhance its production capacity and HK$2.3 million for the expansion of the LIDS and Sanrio operations.

The above capital expenditure is expected to be financed by internal resources of the Group.

SUBSEQUENT EVENTS

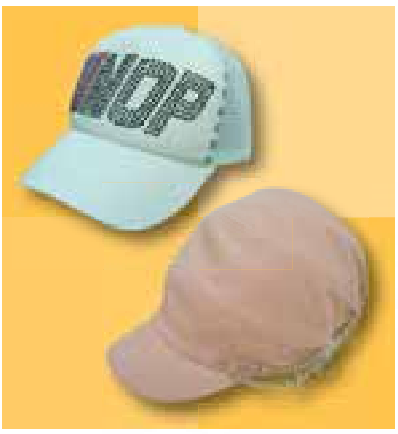
(i) Acquisition of a subsidiary and a joint venture

On 31 October 2007, the Group through its wholly owned subsidiary, entered into an agreement to acquire 100% equity interest of 北京叠翠旅遊紀念品有限責任公司 ("Diecui"), a PRC incorporated company engaging in running souvenir and gift shops in Beijing, the PRC, for a total cash consideration of RMB26 million. Upon the completion of the agreement on 1 January 2008, Diecui becomes a 100% wholly owned subsidiary of the Group.

On 28 January 2008, the Group entered into a Subscription Agreement with Din Tsun Holding Co., Ltd. and Large Forever Ltd. for a 36% equity interest in Keen Idea Group Ltd. ("Keen Idea"). Keen Idea is a company which is engaged in headwear manufacturing business with its factory based in Vietnam. The total investment cost in Keen Idea is HK$22.5 million, which comprises HK$9.8 million cash consideration and HK$12.7 million capital injection commitment.

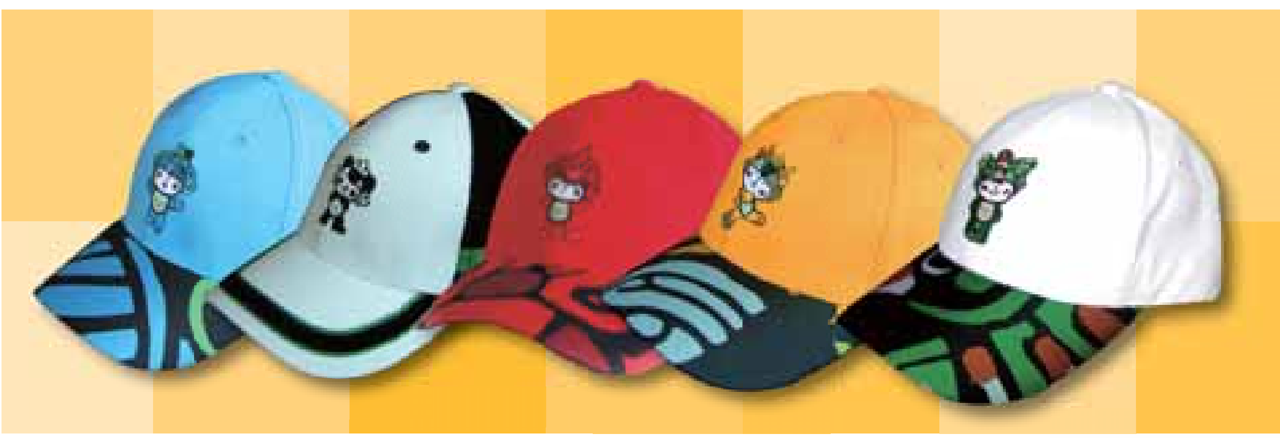
(ii) Litigations

On 6 March 2008, the Company, through its US attorney, filed a complaint in the United District court for the Southern District of New York against Drew Pearson Marketing LLC and USPA Accessories LLC d/b/a Concept One (collectively, the "Defendants") for breaches of the terms and conditions of an Asset Purchase Agreement ("APA") and a Manufacturing Agreement ("MA") entered with the Company in December 2006, the transactions of which were announced and circulated on 11 December 2006 and 29 December 2006 respectively. The Company is seeking a declaratory judgement, which can release the Company from any further performance under the said APA and a judgement for monetary damages plus interest under the said MA.

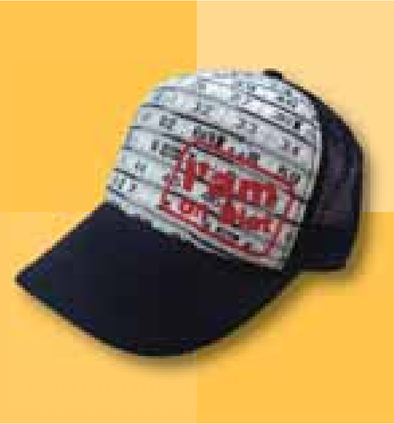


Subsequent to the filing of the Complaint on 6 March 2008, the Company, through its US attorney, came to know that the USPA Accessories LLC d/b/a Concept One had filed a Complaint against the Company for a non-compliance of certain obligations under the MA, and sought from the Company for monetary damages, plus a declaratory judgement finding that the MA would be void and not enforceable.

The directors strongly refute the allegations from Concept One and consider them to be without merit, and as such, are determined to vigorously having those allegations defended. On basis of the information currently available to us, the Company's US attorney feels optimistic that the case will likely be decided in the Company's favour.



EXCHANGE RISK



Most assets and liabilities of the Group are denominated either in HK dollars, US dollars or Renminbi. The Group estimates that any 2% appreciation of the Renminbi is expected to reduce the gross margin of the Manufacturing Business by about 1%. However, as the businesses in the PRC market grow, the expected positive contribution will provide a hedge against the adverse effect of any appreciation of Renminbi to the manufacturing costs.

EMPLOYEES AND REMUNERATION POLICIES

At 31 December 2007, the Group employed 109 (2006: 108) employees in Hong Kong and Macau, and 3,595 (2006: 3,719) employees in the PRC and a total of 6 (2006: 7) employees in the UK. The expenditures for employees during the year were approximately HK$134 million (2006: HK$158 million). The Group ensures that the pay levels of its employees are competitive and employees were remunerated based on their position and performance. Key employees of the Group, including Directors, are also granted share options under the share option schemes operated by the Company.

EXECUTIVE DIRECTORS

Mr. Ngan Hei Keung

aged 52, is the Chairman of the Company and co-founder of the Group. Mr. Ngan is responsible for the production activities of the Group. Mr. Ngan obtained a bachelor degree from 福建農業學院 (Fujian Agricultural College) (now known as 福建農林大學 (Fujian Agricultural University, the "FA University")) in 1982 and currently is a guest professor of the FA University. Mr. Ngan has over 20 years of experience in the headwear industry. He is presently a member of Fujian Committee of the Chinese People's Political Consultative Conference, a member of Fujian Quanzhou Committee of the Chinese People Political Consultative Conference and a director of Yan Qi Tong. In 2006, Mr. Ngan received a Fellowship award from the Asian Knowledge Management Association. Mr. Ngan is the husband of Madam Ngan Po Ling, Pauline.

Madam Ngan Po Ling, Pauline

aged 48, is the Deputy Chairman and Managing Director of the Company and co-founder of the Group. She is responsible for the marketing activities of the Manufacturing Business. She has over 20 years of experience in the headwear industry. Madam Ngan is the wife of Mr. Ngan Hei Keung. She was the chairman of Yan Oi Tong and is currently a member of the Advisory Board of Yan Oi Tong and the Chairman of Po Leung Kuk. She is also a committee member of The Chinese General Chamber of Commerce, the vice president of the Youth Committee of the Returned Overseas Chinese Federation of Fujian, the Vice-chairman of the Youth Committee of the All-China Federation of Returned Overseas Chinese, a senior consultant and director of China Charity Federation, the Vice-chairman of the Hong Kong General Chamber of Textiles Limited, the standing director of Hong Kong Federation of Overseas Chinese Association and a member of Chongqing Committee of The Chinese People's Political Consultative Conference. Madam Ngan is the winner of Young Industrialist Award of Hongkong 2001 and also earned an Executive Director Award as part of "Directors of the Year Awards 2004" organised by the Hong Kong Institute of Directors, and the Owner-Operator Award in the DHL/SCMP Hong Kong Business Awards 2004.

Mr. Cheung Wai Ching

aged 55, joined the Group in September 2007 and is the Chief Executive Officer of the Company. He is responsible for the implementation of the Group's business strategies and policies adopted by the Board. Mr. Cheung graduated from the College of Insurance, USA, major in insurance and business administration. He completed a Master Degree in Business Administration at University of East Asia (now known as University of Macau), and a Master Degree in Technology Management – Global Logistics Management at Hong Kong University of Science and Technology. He is a Charter-member of The Chartered Institute of Logistics and Transport, Hong Kong and the United Kingdom. In addition, he holds a Professional Certificate of Supply Chain Management at Hong Kong University. Mr. Cheung has substantial experience in the strategic planning, in particular, in respect of business ventures in the PRC and distribution and supply chain management.

NON-EXECUTIVE DIRECTOR

Mr. Tse Kam Fow

aged 48, had been appointed as an Independent Non-executive Director of the Company since August 2004 and is re-designated as a Non-executive Director of the Company. Mr. Tse is a certified public accountant practising in Hong Kong with wide experience in most areas of accounting, taxation, audit, corporate consulting and investment advisory. He is also presently independent non–executive director of Carico Holdings Limited, which is listed in the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Shu Yin, William

aged 58, was appointed as an Independent Non-executive Director of the Company in March 2000. Mr. Leung graduated from the Department of Accountancy of Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University). He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. He is also a member of the Hong Kong Securities Institute and the Society of Chinese Accountants and Auditors. Mr. Leung is currently a practising director of several certified public accountants firms in Hong Kong. He is also presently independent non-executive directors of Lai Sun Garment (International) Limited and Lai Sun Development Company Limited, and executive director of Peking Apparel International Group Limited, all listed in the main board of the Stock Exchange.

Mr. Lo Hang Fong

aged 44, was appointed as an Independent Non-executive Director of the Company in February 2005. Mr. Lo is a solicitor and is practising as a partner of Stevenson, Wong & Co. He is also presently independent non-executive director of Bonjour Holdings Limited, which is listed in the main board of the Stock Exchange.

Mr. Liu Tieh Ching, Brandon, JP

aged 62, was appointed as an Independent Non-executive Director of the Company in August 2006. Mr. Liu is a merchant. He is also currently a Standing Committee Member of the Shanghai Committee of Chinese People's Political Consultative Conference, an Advisory Board Member of the Business Forum of China National Committee for Pacific Economic Corporation of Pacific Economic Cooperation Council, the honorary President of the Hong Kong Commerce and Industry Association, the Standing Committee Member of The Chinese General Chamber of Commerce and the Vice Chairman, Energy & Power of Federation of Hong Kong Industries.

SENIOR MANAGEMENT

Mr. Raj Kapoor

aged 47, is the managing director of the Group's Europe operations. Mr. Kapoor obtained a bachelor degree from the University of Newcastle Upon Tyne in the United Kingdom ("UK") and has over 15 years of experience in the headwear industry in Europe. He joined the Group in March 2005 when the Group set up its subsidiary in the UK.

Mr. Lai Man Sing, Thomas

aged 40, firstly joined the Company during July 1999 to May 2001 and rejoined the Company in March 2008. He is the Financial Controller of the Company and in charge of the finance department. Mr. Lai obtained his first degree from London School of Economics and Political Science, University of London, UK and earned a Master degree in Business Administration from University of Western Sydney, Australia. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, also a CPA of The Australian Society of Certified Practising Accountants. He took senior financial position for sizable listed companies and worked in an international accounting firm for many years.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Oei Oi Leung, Linda

aged 59, is the Director of Corporate Communications of the Company. She joined the Company in April 2001 and is responsible for investor relations and media relations of the Company. Ms. Oei is well experienced in the industry of public relations.

Ms. Wong Man Sze, Miranda

aged 41, joined the Company in October 2007 and is the Chief Operating Officer – Retail and in charge of the retail business for HK and PRC markets. She holds a Bachelor degree of Marketing from The Open University of Hong Kong. She possesses over 15 years of experience in marketing, brand development, project consultation, retail expansion and distribution, product development and manufacturing. She also actively takes the advisory role to deliver seminars and workshop in HK Trade Development Council and other manufacturers association for topics related to corporate strategy, change management and retail brand management.

Mr. Yeung Huen, Anthony

aged 43, joined the Company in March 2008 and is the General Sales Manager, in charge of the sales and marketing team major for U.S. market. Mr. Yeung graduated from Hong Kong Polytechnic (Now known as Hong Kong Polytechnic University) with a Higher Diploma in Fashion and Clothing Technology. He holds a Master Degree in Business Administration from University of Bradford, UK. He has worked for manufacturing and trading companies for over 15 years in Merchandising as well as Sales and Marketing area for US & Europe markets.

Mr. Peter, Hultgren

aged 34, joined the Company in January 2008 and is the Sales & Marketing Director – Europe of the Company. Before his joining, Mr. Hultgren worked in a leading fashion distribution company in North Europe and has more than 10 years experience in the garment industry for sourcing, production and sales & marketing area in the territories.

Ms. Leung Ka Pik, Ada

aged 46, joined the Company in December 2007 and is the Human Resources and Administrative Director. She holds a Master Degree in Business Administration from University of Canberra, Australia. She had worked in two listed apparel companies and an international accounting firm for many years.

The Company is committed to maintaining a high standard of corporate governance practices. The Board considers shareholders can maximize their benefits from good corporate governance.

The Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Governance Practices (the "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 2007, except for the deviations from Code Provisions A.4.1 and A.4.2 which are explained in the following relevant paragraphs.

CORPORATE GOVERNANCE PRINCIPLES AND THE COMPANY'S PRACTICES

A.1. Board of Directors

An issuer should be headed by an effective board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer's affairs. Directors should take decisions objectively in the interests of the issuer.

Regular Board meetings are held at quarterly intervals. In addition, special Board meetings will be held when necessary. Attendance of individual Directors at Board meetings in 2007 are as follows:

Number of meetings		17
Executive Directors		
Ngan Hei Keung	*(Chairman)*	17
Madam Ngan Po Ling, Pauline	*(Deputy Chairman and Managing Director)*	17
Mr. Cheung Wai Ching	*(Chief Executive Officer appointed on 25 September 2007)*	3
Mr. Ho Hung Chu, Peter	*(Chief Executive Officer resigned on 25 September 2007)*	13
Non-executive Director		
Mr. Tse Kam Fow	*(re-designated on 25 September 2007)*	4
Independent Non-executive Directors		
Mr. Leung Shu Yin, William		5
Mr. Lo Hang Fong		4
Mr. Liu Tieh Ching, Brandon, JP		3

Directors are consulted to include matters in the agenda for regular Board meetings.

Dates of regular Board meetings are scheduled at least 14 days in advance to provide sufficient notice to give all Directors an opportunity to attend. For all other Board meetings, reasonable notice will be given.

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

Minutes of the Board, the Audit Committee and the Remuneration Committee are kept by the Company Secretary. Minutes are open for inspection at any reasonable time on reasonable notice by any Director.

Minutes of the Board and Board Committees have recorded in sufficient detail the matters considered by the Board and the Committees, decisions reached, including any concerns raised by Directors or dissenting views expressed. Draft and final versions of minutes of the Board are sent to all Directors for their comment and records respectively.

The Board shall resolve to provide separate independent professional advice to Directors to assist Directors to discharge their duties at the Company's expense.

A.2. Chairman and Chief Executive Officer

There are two key aspects of the management of every issuer – the management of the board and the day-to-day management of the issuer's business. There should be a clear division of these responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Ngan Hei Keung is the Chairman of the Company. Mr. Ngan oversees the management of the manufacturing facilities of the Group and also provides leadership for the Board. He ensures 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. Mr. Ngan is also responsible to ensure that all directors are properly briefed on issues arising at board meetings and that all directors receive adequate information, which must be complete and reliable, in a timely manner. Mr. Ngan is the husband of Madam Ngan Po Ling, Pauline.

Madam Ngan Po Ling, Pauline is the Deputy Chairman and Managing Director of the Company. She is responsible for the marketing activities of the Group's Manufacturing Business. Madam Ngan is the wife of Mr. Ngan Hei Keung.

Mr. Cheung Wai Ching is the Chief Executive Officer of the Company. He is responsible for the implementation of the Group's business strategies and policies adopted by the Board.

The Board considers that there is adequate segregation of duties within the Board to ensure a balance of power and authority.

A.3. Board Composition

The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should ensure that changes to its composition can be managed without undue disruption. The board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgement. Non-executive directors should be of sufficient calibre and number for their views to carry weight.

The Board comprises three Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline and Mr. Cheung Wai Ching; one Non-executive Director, Mr. Tse Kam Fow, and three Independent Non-executive Directors, namely Messrs. Leung Shu Yin, William, Lo Hang Fong and Liu Tieh Ching, Brandon, JP. All Directors are expressly identified by categories of Executive Directors, Non-executive Director and Independent Non-executive Directors, in all corporate communications that disclose the names of Directors of the Company.

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules in relation to the appointment of a sufficient number of independent non-executive directors and an independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise.

Biographies which include relationships of Directors are set out in pages 13 to 14 of the annual report, which demonstrate a diversity of skills, expertise, experience and qualifications among members of the Board.

A.4. Appointments, Re-election and Removal

There should be a formal, considered and transparent procedure for the appointment of new directors to the board. There should be plans in place for orderly succession for appointments to the board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code Provision A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Company's bye-law No. 87, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation provided that the Chairman of the Board and/or the Managing Director of the Company shall not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year.

Non-executive Director and Independent Non-executive Directors of the Company do not have a specific term of appointment. This deviates from Code Provision A4.1. However, all the Non-executive Director and Independent Non-executive Directors of the Company are subject to retirement by rotation and re-election in accordance with the Company's bye-law No. 87.

The Company's bye-law 87 which excludes the Chairman and the Managing Director from retirement by rotation and re-election deviates from the Code Provision A.4.2 which requires every director to be subject to retirement by rotation at least once every three years. The Directors consider the deviation acceptable as Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline, the current Chairman and Managing Director respectively, are the founders, principal management and also the substantial shareholders of the Company.

All Directors appointed to fill a casual vacancy or as an addition are subject to election by shareholders at the first general meeting after their appointment.

The Directors consider that it is not necessary to have a nomination committee for the time being. The Directors will review this from time to time and will establish a nomination committee should there be a need.

A proposal for the appointment of a new Director will be considered and reviewed by the Board. All candidates must be able to meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an Independent Non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

A.5. Responsibilities of Directors

Every director is required to keep abreast of his responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

Every newly appointed director of the Company is ensured to have a proper understanding of the operations and business of the Group and that he is fully aware of his responsibilities under statue and common law, the Listing Rules, applicable legal and regulatory requirements and the business governance policies of the Group. The Directors are continually updated with legal and regulatory developments, business and strategic development of the Group to enable the discharge of their responsibilities.

All Independent Non-executive Directors take an active role in board meetings to bring in independent judgement to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts. They scrutinize the Company's performance in achieving agreed corporate goals and objectives, and monitor the reporting of performance. They also take the lead where potential conflicts of interests arise and serve the audit and remuneration committees.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following enquiry by the Company, that they have complied with the required standard set out in Model Code throughout the year ended 31 December 2007.

A.6. Supply of and Access to Information

Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer.

In respect of regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers are sent in full to all Directors in a timely manner and at least 3 days before the intended date of a Board or Board Committee meeting.

Management are regularly reminded by the Company Secretary that they have an obligation to supply the Board and its Committees with adequate information in a timely manner to enable it to make informed decisions. The information supplied must be complete and reliable. The Board and each Director shall have separate and independent access to the Company's senior management.

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

B.1. The Level and Make-up of Remuneration and Disclosure

An issuer should disclose information relating to its directors' remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. Levels of remuneration should be sufficient to attract and retain the directors needed to run the company successfully, but companies should avoid paying more than is necessary for this purpose. No director should be involved in deciding his own remuneration.

The Company has established a Remuneration Committee with specific written terms of reference as set out in Code Provisions B.1.3 (a) to (f) of the Code. The Remuneration Committee is responsible for making recommendations to the Board regarding the Company's remuneration policy, and for the formulation and review of the specific remuneration packages of all Executive Directors and senior executives of the Group.

A majority of the members of the Remuneration Committee are Independent Non-executive Directors. This Committee is chaired by Mr. Tse Kam Fow. The other members are Mr. Ngan Hei Keung (resigned on 25 September 2007), Madam Ngan Po Ling, Pauline, Mr. Leung Shu Yin, William, Mr. Lo Hang Fong and Mr. Liu Tieh Ching, Brandon, JP.

The meetings of the Committee is held at least once a year or when necessary. The Remuneration Committee held three meetings in 2007, which was attended by all members of the Committee, and had considered the following proposals for the remuneration of Directors and senior management and made recommendation to the Board:

1. Annual salary review policy;

2. Offer of share options as part of the long term incentive schemes; and

3. Performance related bonus.

The Group ensures that the pay levels of its employees, including Directors and senior management, are competitive and employees are remunerated based on their positions and performance. Key employees of the Group are also granted share options under the share option schemes operated by the Company.

Details of the amount of Directors' emoluments for 2007 are set out in note 8 to the financial statements. Details of the share option schemes of the Company are set out in the Report of the Director and note 29 to the financial statements.

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

C.1. Financial Reporting

The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

Management has provided such explanation and information to the Board as would enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors are responsible for keeping proper accounting records and preparing financial statements of each financial period, which shall give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2007, the Directors have made judgements and estimates that are prudent and reasonable and prepared the financial statements on a going concern basis.

A statement by the auditors about their reporting responsibilities is included in the Report of the Independent Auditors on page 35 to 36 of the annual report for the year ended 31 December 2007.

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

C.2. Internal Controls

The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness through the Audit Committee. The Board requires management to establish and maintain sound and effective internal controls. Review of the Group's internal controls covering financial, operational and compliance controls, and risk management functions on different systems is done on a systematic rotational basis based on the risk assessments of the operations and controls.

C.3. Audit Committee

The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee established by an issuer pursuant to the Listing Rules should have clear terms of reference.

The Company has established an Audit Committee with specific written terms of reference which deal clearly with its authority and duties. The terms of reference of the Audit Committee have included the duties set out in Code Provisions C.3.3 (a) to (n) of the Code, with appropriate modifications where necessary. The Audit Committee has made available its terms of reference, on the website of the Company, explaining its role and the authority delegated to it by the Board.

As set out in the terms of reference, the Audit Committee is responsible for reviewing the financial reporting system and internal control procedures, annual report and financial statements and interim report.

The Audit Committee comprises the Non-executive Director and three Independent Non-executive Directors of the Company and is chaired by Mr. Leung Shu Yin, William. This Committee held 2 meetings in 2007 which were attended by all members of the Committee.

The following is a summary of the work performed by the Audit Committee during the year:

1. Reviewed external auditors' management letter and management's response;

2. Reviewed and recommended to the Board approval of the audit fee proposal for 2007;

3. Considered and recommended to the Board that the shareholders be asked to re-appoint the existing auditors as the Company's external auditors for 2008;

4. Reviewed and approved the Group's internal audit plan for 2008;

5. Reviewed internal audit reports and brought to the attention of Management on internal control issues;

6. Reviewed the audited financial statements and final results announcement for the year 2006; and

7. Reviewed the Interim Report and the interim results announcement for the six months ended 30 June 2007.

All issues raised by the Committee have been addressed by Management. The work and findings of the Committee have been reported to the Board. During the year, no issues brought to the attention of Management and the Board were of sufficient importance to require disclosure in the Annual Report.

The Board agrees with the Audit Committee's proposal for the re-appointment of existing auditors as the Company's external auditors for 2008.

During the year, the Company's auditors had not provided any non-audit services to the Company.

Auditors' remuneration for the year is set out in note 7 to the financial statements.

Full minutes of Audit Committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the Audit Committee meetings are sent to all members of the Committee for their comments and records respectively, in both cases within a reasonable time after the meeting.

The Audit Committee does not have a former partner of the Company's existing audit firm.

The Audit Committee is provided with sufficient resources, including the advice of external auditors, to discharge its duties.

D.1. Management Functions

An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

The Board is responsible for formulating overall strategy, monitoring and controlling the performance of the Group whilst managing the Group's business is the responsibility of Management.

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

The Company has established schedules of Matters Reserved to the Board for Decision and Matters Delegated to Management. The Board shall review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

Matters Reserved to the Board for Decision include:

1. Business plan;

2. Financial statements and budget;

3. Mergers and acquisitions and other substantial investments;

4. Formation of board committees;

5. Appointment and resignation of directors; and

6. Appointment and removal of auditors.

D.2. Board Committees

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

Apart from Audit Committee (particulars are disclosed under C.3) and Remuneration Committee (particulars are disclosed under B.1), there are no other board committees established by the Board. Where board committees are established to deal with matters, the Board shall prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly. The terms of reference of board committees shall require such committees to report back to the board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so.

E.1. Effective Communication

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

At the 2007 Annual General Meeting, a separate resolution was proposed by the Chairman in respect of each separate issue, including the re-election of Directors.

The Chairman of the Board and the chairmen of the Audit and Remuneration Committees shall attend the 2008 Annual General Meeting to answer questions of shareholders.

E.2. Voting by Poll

The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the issuer.

The Company sets out in its circular to shareholders the procedures for and the rights of shareholders to demand a poll. In accordance with the Company's bye-law, at any general meeting, a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

1. the chairman of the meeting; or

2. at least three members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or

3. any member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

4. a member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

In accordance with Listing Rules 13.39 (3), the Chairman of a meeting and/or directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting shall demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies. If a poll is required under such circumstances, the chairman of the meeting shall disclose to the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands.

The Company shall count all proxy votes and, except where a poll is required, the Chairman of a meeting shall indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. Representatives from Tricor Tengis Limited, the Company's Hong Kong Branch Share Registrar, are present in meetings as to ensure votes cast are properly counted and recorded.

The Chairman of a meeting shall at the commencement of the meeting ensure that an explanation is provided of:

1. the procedure for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and

2. the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 40 to the financial statements.

SEGMENTAL INFORMATION

Details of segmental information are set out in note 5 to the financial statements.

RESULTS AND APPROPRIATION

An interim dividend of 3 HK cents (2006: 3 HK cents) per share, totaling HK$9,552,000 was paid on 4 October 2007. The Directors now recommend the payment of a final dividend of 5 HK cents (2006: 11 HK cents) per share in respect of the year ended 31 December 2007. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 16 June 2008 to the shareholders whose names appear on the register of members at the close of the business on 20 May 2008.

The register of members of the Company will be closed from 21 May 2008 to 26 May 2008 (both dates inclusive). In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 20 May 2008.

No arrangement has been made under which a shareholder has waived or agreed to waive any dividends.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 93 to 94.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total Purchases	Sales
The largest customer	–	11%
Five largest customers in aggregate	–	37%
The largest supplier	10%	–
Five largest suppliers in aggregate	31%	–

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent HK$36,040,000 (2006: HK$24,376,000) on construction of a factory building, additions to property, plant and equipment to upgrade its manufacturing capability, and on opening of retail stores. Details of movements in property, plant and equipment are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 28 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements.

As at 31 December 2007, the Company's reserves available for cash distribution amounted to HK$207,594,000 (2006: HK$261,322,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK$100,203,000 (2006: HK$94,820,000) as at 31 December 2007 may be distributed in the form of fully paid bonus shares.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$1,136,000 (2006: HK$992,000).

DIRECTORS

The Directors during the financial year were:

Executive Directors

Mr. Ngan Hei Keung	*(Chairman)*
Madam Ngan Po Ling, Pauline	*(Deputy Chairman and Managing Director)*
Mr. Cheung Wai Ching	*(Chief Executive Officer, appointed on 25 September 2007)*
Mr. Ho Hung Chu, Peter	*(Chief Executive Officer, resigned on 25 September 2007)*

Non-executive Director

Mr. Tse Kam Fow	*(re-designated on 25 September 2007)*

Independent Non-executive Directors

Mr. Leung Shu Yin, William
Mr. Lo Hang Fong
Mr. Liu Tieh Ching, Brandon, JP

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

All the Directors, excluding Chairman and Managing Director, are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Bye-Laws No. 87 of the Company.

In accordance with the Company's Bye-Law No. 87, Mr. Leung Shu Yin, William and Mr. Lo Hang Fong shall retire by rotation at the forthcoming annual general meeting. Mr. Cheung Wai Ching, being Director appointed by the Board after the Company's annual general meeting held on 22 May 2007, will hold office until the forthcoming annual general meeting pursuant to the Company's Bye-Law No. 86(2). All the retiring Directors, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline has entered into a service contract with the Company which may be terminated by not less than twelve months' notice in writing served by either party.

Mr. Cheung Wai Ching, has entered into a service contract with the Company, which may be terminated by not less than six months' notice in writing served by either party.

Mr. Lo Hang Fong and Mr. Liu Tieh Ching, Brandon, JP have entered into a service contract with the Company, which may be terminated by not less than three months' notice in writing served by either party.

Save as disclosed above, none of the Directors has an unexpired service contract with the Company or any of its subsidiaries, which is not determinable by the Group within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 37 to the financial statements and in the section "Connected Transaction" below, no contract of significance to which the Company or its subsidiaries was a party, and in which a Director of the Company had a material interest subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTION

During the year, the Group paid rental totaling HK$960,000 under operating lease in respect of office premises to a company beneficially owned by Mr. Ngan Hei Keung.

The above connected transaction was conducted on normal commercial terms and on an arm's length basis and where applicable in accordance with the terms of the agreement governing such transaction, and is fair and reasonable so far as the shareholders of the Company are concerned.

The above transaction has been confirmed by the Independent Non-executive Directors of the Company.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, the interests of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in the shares and underlying shares of the Company

	Number of shares				
	Personal interest	Other direct interest	Underlying shares	Total	Percentage of interest
Mr. Ngan Hei Keung	–	195,786,000 (note 1, 2)	–	195,786,000	61.49%
Madam Ngan Po Ling, Pauline	12,086,000 (note 2)	183,700,000 (note 1)	–	195,786,000	61.49%
Mr. Cheung Wai Ching	–	100,000 (note 3)	3,000,000 (note 4)	3,100,000	0.97%

Notes:

(1) 183,700,000 shares are legally and beneficially owned by Successful Years International Co., Ltd., a company ultimately and beneficially owned by NHK Trust and NPL Trust as to 40% and 60% respectively. These two trusts are discretionary family trusts settled by Mr. Ngan Hei Keung and the discretionary beneficiaries include Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, and their family members.

(2) The 12,086,000 shares are beneficially owned by Madam Ngan Po Ling, Pauline, the spouse of Mr. Ngan Hei Keung.

(3) The 100,000 shares are beneficially owned by the spouse of Mr. Cheung.

(4) Pursuant to the service contract signed by Mr. Cheung and the Company, Mr. Cheung has been granted share options under the Company's share option scheme to subscribe for 3,000,000 shares of the Company.

Save as disclosed above, none of the Directors or chief executives of the Company had any interests in the shares or underlying shares of the Company or any of its associated corporations as defined in the SFO.

SHARE OPTION SCHEMES

Prior to 23 May 2002, the Company operated an option scheme whereby the Board of Directors could, at their absolute discretion, grant options to employees and Executive Directors of the Company and any of its subsidiaries to subscribe for shares in the Company (the "Old Scheme"). On 23 May 2002, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted, whereby the Board of Directors may, at their absolute discretion, grant options to any eligible employees, including directors of the Company or any of its subsidiaries or any invested entity, any suppliers of goods or services to any member of the Group or any invested entity, and any customers of the Group or any invested entity to subscribe for shares in the Company.

For options granted before 1 September 2001, the exercise price of options was determined by the Board and was the higher of the nominal value of the shares and 80% of the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. For options granted after 1 September 2001, the exercise price of the options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer of the options and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Group may not in aggregate exceed 30,536,058, being 10% of the shares in issue of the Company as at 23 May 2002, the date of adoption of the New Scheme adjusted for the issue of bonus shares on 22 May 2007.

The New Scheme will remain in force for a period of 10 years from the date of its adoption. The purpose of the New Scheme is to enable the Group to grant options to selected participants as incentive or rewards for their contributions to the Group.

Unless approved by shareholders in general meeting, the total number of shares issued and which may fall to be issued upon exercise of the options of the New Scheme and the options granted under any other schemes of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company at the relevant time.

An option may be exercised in accordance with the terms of the New Scheme at any time during the period (which may not expire later than 10 years from the date of offer of that option) to be determined and notified by the Directors to the grantee and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of the date on which such option lapses in accordance with the terms of the New Scheme and 10 years from the date of offer of that option. A consideration of HK$1 will be payable upon acceptance of the offer.

As at the date of annual report, the total number of shares available for issue, save for those granted but yet to be exercised, under the New Scheme was 7,378,458 shares, which represented 2.3% of the issued share capital of the Company as at 31 March 2008.

At 31 December 2007, the Directors, employees, customers and suppliers of the Group had the following interests in options to subscribe for shares in the Company (market value per share is HK$1.95 at the balance sheet date) granted at nominal consideration under the share option schemes operated by the Company, each option gives the holder the right to subscribe for one share:

	Date of grant	Period during which options exercisable	Exercise price (note 1) (HK$)	Outstanding at 1.1.2007	Exercised during the year before issue of bonus shares (note 2)	Adjustment for issue of bonus shares (note 1)	Granted during the year	Lapsed during the year	Exercise during the year after issue of bonus shares (note 2)	Outstanding at 31.12.2007	Market value per share at date of grant (note 1) (HK$)
Old Scheme											
Employees	11.06.2001	11.06.2002 – 10.06.2009	1.116	404,000	(130,000)	27,400	–	–	–	301,400	1.40
New Scheme											
Director	25.09.2007	25.09.2007 – 24.09.2017	2.380	–	–	–	3,000,000	–	–	3,000,000	2.24
Employees	03.07.2002	03.07.2003 – 02.07.2010	2.455	10,750,000	(75,000)	1,067,500	–	(7,381,000)	–	4,361,500	2.45
	12.02.2003	12.02.2004 – 11.02.2011	2.005	1,120,000	–	112,000	–	(1,232,000)	–	–	2.00
	03.06.2003	03.06.2004 – 02.06.2013	2.091	10,006,000	(2,397,000)	760,900	–	(523,600)	(10,000)	7,836,300	2.09
	04.12.2007	04.12.2007 – 03.12.2017	2.020	–	–	–	1,000,000	–	–	1,000,000	1.99
				21,876,000	(2,472,000)	1,940,400	1,000,000	(9,136,600)	(10,000)	13,197,800	
Customers and suppliers	03.07.2002	03.07.2003 – 02.07.2010	2.455	1,950,000	–	195,000	–	–	–	2,145,000	2.45
	03.06.2003	03.06.2004 – 02.06.2013	2.091	600,000	(600,000)	–	–	–	–	–	2.09
				2,550,000	(600,000)	195,000	–	–	–	2,145,000	

Notes:

(1) The number of share options outstanding, exercise prices and market value per share at date of grant have been adjusted for the bonus shares issued in May 2007.

(2) Closing prices of shares immediately before the dates on which options were exercised ranged from HK$2.61 to HK$3.3.

Apart from the foregoing, at no time during the year was the Company, its holding company or subsidiaries a party to any arrangements to enable the Company's Directors or chief executives or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company, or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors or chief executives of the Company, as at 31 December 2007, the following declarations of interests by shareholders (other than Directors) holding 5% or more of the issued share capital of the Company was recorded in the register required to be kept by the Company under Section 336 of the SFO:

	Capacity	Number of shares	Percentage of shareholding
Successful Years International Co., Ltd. (note)	Beneficial owner	183,700,000	57.69%
Amex International Trust (Cayman) Ltd. (note)	Trustee	183,700,000	57.69%

Note: Successful Years International Co., Ltd. is owned by NHK Trust and NPL Trust as to 40% and 60% respectively. These two trusts are discretionary family trusts settled by Mr. Ngan Hei Keung and the discretionary beneficiaries include Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, and their family members. Amex International Trust (Cayman) Ltd. is the trustee of the two trusts.

The interests of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline in Successful Years International Co., Ltd. are also disclosed in the section headed "Directors' Interests in Shares and Underlying Shares" above.

Save as disclosed above, as at 31 December 2007, the Company had not been notified by any persons (other than Directors) who had interests in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

RETIREMENT SCHEMES

Particulars of retirement schemes operated by the Group are set out in note 14 to the 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 existing shareholders.

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

During the year ended 31 December 2007, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

The Directors confirm that, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has sufficient public float as at 15 April 2008, being the date of this report.

AUDITORS

Moores Rowland Mazars audited the financial statements of the Company and of the Group for the years ended 31 December 2005 and 2006. On 1 June 2007, Moores Rowland Mazars changed its name to Moores Rowland and combined its business into Grant Thornton. The financial statements of the Company and of the Group for the year ended 31 December 2007 were audited by Grant Thornton.

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Grant Thornton as the auditors of the Company.

By order of the Board

Ngan Hei Keung
Chairman

Hong Kong, 15 April 2008

Grant Thornton
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Member of Grant Thornton International Ltd

To the members of
Mainland Headwear Holdings Limited
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Mainland Headwear Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 92, which comprise the consolidated and the Company's balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

Grant Thornton
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AUDITORS' RESPONSIBILITY (CONTINUED)

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

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

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 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.

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

15 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Turnover and revenue	3		
Continuing operation		**539,041**	479,792
Discontinued operation	6	**–**	262,800
		539,041	742,592
Cost of sales		**(365,957)**	(485,534)
Gross profit		**173,084**	257,058
Other income	4	**12,620**	7,354
Selling and distribution costs		**(55,459)**	(45,877)
Administration expenses		**(76,962)**	(134,091)
Profit from operations		**53,283**	84,444
(Adjustment to gain)/gain on disposal of assets and liabilities of a subsidiary	6	**(5,475)**	8,047
Finance costs		**(277)**	(208)
Profit/(loss) before taxation	7		
Continuing operation		**53,006**	85,437
Discontinued operation		**(5,475)**	6,846
		47,531	92,283
Taxation	10		
Continuing operation		**(5,940)**	(8,296)
Discontinued operation		**–**	(465)
		(5,940)	(8,761)
Profit/(loss) for the year			
Continuing operation		**47,066**	77,141
Discontinued operation	6	**(5,475)**	6,381
		41,591	83,522

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Attributable to:			
Equity holders of the Company			
Continuing operation		**47,177**	80,589
Discontinued operation	6	**(5,475)**	6,381
		41,702	86,970
Minority interests		**(111)**	(3,448)
Profit for the year		**41,591**	83,522
Dividends	12	**25,472**	57,792
Earnings/(loss) per share	13		(As restated)
Basic			
Continuing operation		**14.8 HK cents**	25.6 HK cents
Discontinued operation		**(1.7 HK cents)**	2.0 HK cents
		13.1 HK cents	27.6 HK cents
Diluted			
Continuing operation		**14.7 HK cents**	25.5 HK cents
Discontinued operation		**(1.7 HK cents)**	2.0 HK cents
		13.0 HK cents	27.5 HK cents

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Note	**2007** HK$'000	**2007** HK$'000	2006 HK$'000	2006 HK$'000
Total equity at 1 January			**516,280**		465,972
Profit for the year	30		**41,591**		83,522
Net income recognised directly in equity:					
Exchange differences	30		**3,413**		6,660
Total recognised income and expense for the year					
Attributable to:					
Equity holders of the Company		**44,699**		93,280	
Minority interests		**305**		(3,098)	
			45,004		90,182
Dividends	12,30		**(58,757)**		(40,074)
Movements in equity arising from capital transactions:					
Shares issued under share option schemes	28,30	**7,275**		–	
Bonus shares issued	28,30	**2,894**		–	
Equity settled share-based payment transactions	30	**78**		200	
Minority interest of subsidiaries acquired during the year	30	**1,414**		–	
			11,661		200
Total equity at 31 December			**514,188**		516,280

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**146,120**	136,356
Prepaid premium on leasehold land held for own use under an operating lease	16	**1,141**	1,198
Goodwill	18	**8,161**	6,707
Intangibles	19	**10,603**	10,033
Deferred tax assets	27	**36**	193
		166,061	154,487
Current assets			
Inventories	20	**107,627**	93,126
Trade and other receivables	21	**143,902**	229,711
Amount due from a related company	22	**851**	768
Short term investments	23	**81,582**	-
Tax recoverable		**751**	603
Bank balances and cash		**95,874**	139,247
		430,587	463,455
Current liabilities			
Trade and other payables	24	**61,422**	72,605
Amounts due to related companies	22	**843**	1,038
Secured short term bank loan		**–**	6,000
Taxation		**7,927**	8,768
		70,192	88,411
Net current assets		**360,395**	375,044
Total assets less current liabilities		**526,456**	529,531
Non-current liabilities			
Long term payables	25	**8,573**	8,114
Post-employment benefits	26	**73**	172
Deferred tax liabilities	27	**3,622**	4,965
		12,268	13,251
NET ASSETS		**514,188**	516,280

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
CAPITAL AND RESERVES			
Share capital	28	**31,840**	28,625
Reserves	30	**479,494**	486,520
Total equity attributable to equity holders of the Company		**511,334**	515,145
Minority interests	30	**2,854**	1,135
TOTAL EQUITY		**514,188**	516,280

Approved and authorised for issue by the Board of Directors on 15 April 2008

Ngan Hei Keung
Director

Ngan Po Ling, Pauline
Director

BALANCE SHEET

As at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	17	**342,945**	388,508
Current assets			
Other receivables		**305**	7
Tax recoverable		**208**	–
Bank balances and cash		**1,182**	3,311
		1,695	3,318
Current liabilities			
Accrued charges and other creditors		**–**	(465)
Taxation		**(391)**	–
		(391)	(465)
Net current assets		**1,304**	2,853
NET ASSETS		**344,249**	391,361
CAPITAL AND RESERVES			
Share capital	28	**31,840**	28,625
Reserves	30	**312,409**	362,736
		344,249	391,361

Approved and authorised for issue by the Board of Directors on 15 April 2008

Ngan Hei Keung
Director

Ngan Po Ling, Pauline
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Operating activities			
Cash generated from operations	32	**124,497**	110,064
PRC Income Tax paid		**(232)**	(150)
PRC Income Tax refunded		**–**	192
Hong Kong Profits Tax paid		**(7,223)**	(6,283)
Hong Kong Profits Tax refunded		**560**	–
Overseas taxation paid		**(1,258)**	(1,640)
Net cash generated from operating activities		**116,344**	102,183
Investing activities			
Interest received		**6,667**	1,928
Purchase of property, plant and equipment		**(36,040)**	(15,416)
Sales of property, plant and equipment		**170**	275
Net receipt from related companies		**–**	43
Net (acquisition)/sales of short term investments		**(78,070)**	72,351
Acquisition of subsidiaries		**–**	(41,876)
Disposal of assets and liabilities of a subsidiary	33	**–**	(18,567)
Net cash used in investing activities		**(107,273)**	(1,262)
Financing activities			
Interest paid		**(277)**	(208)
Dividends paid		**(55,863)**	(40,074)
Repayment of bank loan		**(6,000)**	–
Proceed from share option exercised		**7,275**	–
Funds from obligations under finance lease		**–**	541
Net cash used in financing activities		**(54,865)**	(39,741)
Net (decrease)/increase in cash and cash equivalents		**(45,794)**	61,180
Cash and cash equivalents at beginning of year		**139,247**	77,666
Effect of foreign exchange rate changes		**2,421**	401
Cash and cash equivalents at end of year		**95,874**	139,247
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**95,874**	139,247

1. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation

The financial statements are prepared under the historical cost convention, except for intangibles, short term investments and long term payables which are stated at fair value as explained in accounting policies as set out below (see note 1(f), 1(l), and 1(k)).

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

(c) Subsidiaries and minority interests

A subsidiary is an entity, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. Investments in subsidiaries are stated at cost less impairment loss (see note 1(g)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale). The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extend that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(g)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination, after re-assessment, is recognised immediately as income.

On disposal of a cash generating unit, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses (see note 1(g)).

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as income or expense in the income statement.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, over their estimated useful lives from the date on which they are available for use and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Furniture and equipment	20% to 33%
Leasehold improvements	10% to 50%
Plant and machinery	10%
Motor vehicles	20%

No depreciation is provided in respect of construction in progress until it is completed and available for use.

(f) Intangibles

Intangibles are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(g)). Amortisation of intangibles with finite useful lives is charged to income statement from the date they are available for use and the estimated useful life is 2 years. Both the period and method of amortisation are reviewed annually.

(g) Impairment of assets

(i) Impairment of trade and other receivables

Other current receivables are reviewed at each balance sheet date to determine whether there is objective evidence of impairment.

The impairment loss of trade and other receivables is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the financial asset's original effective interest rate. Impairment losses for trade and other receivables are reversed if in a subsequent period the amount of the impairment loss decreases.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets except in the case of goodwill may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- prepaid premium on leasehold land held for own use;
- Intangibles;
- interests in subsidiaries; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset for which the future cash estimates have not been adjusted. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to income statement in the year in which the reversals are recognised.

(h) Prepaid premium on leasehold land held for own use under an operating lease

Prepaid premium is up-front payments to acquire fixed term interests in lessee-occupied land. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis to the income statement.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in-first-out costing method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(g)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms.

(k) Trade and other payables

Trade and other payables (including long term payables) are initially recognised at fair value and thereafter stated at amortised cost.

(l) Short term investments

Financial assets held for trading carried at fair value through profit or loss are classified as short term investments under current assets and initially stated at fair value, which has been acquired principally for the purpose of selling in the near future; or a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking. Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value, and in the case of financial assets not carried at fair value through profit or loss, plus transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in the income statement.

(m) Cash equivalents

For the purpose of consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts.

(n) 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.

Assets held under finance leases are recognised as assets of the Group at the lower of the fair value of the leased asset and the present value of minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

(o) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(o)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

(q) Foreign currencies

Transactions in foreign currencies are translated at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date. Translation differences are dealt with in the income statement, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity.

The balance sheets of subsidiaries, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, expressed in foreign currencies are translated at the rate of exchange ruling at the balance sheet date whilst the income statement is translated at an average rate. Exchange differences are dealt with as a movement in reserves. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(r) Dividends

Final dividends proposed by the directors are classified as a separate allocation of accumulated profits within reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

(s) Related parties

For the purpose of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is entity under the control, joint control or significant influence of such individual; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influence by, that individual in their dealings with the entity.

(t) Retirement benefit costs

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund are charged as expenses as they fall due.

(u) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(v) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably.

Sale of goods is recognised when the goods are delivered and title has passed.

Interest income is accrued on a time proportion basis on the principal outstanding and at the applicable interest rate.

(w) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment assets consist primarily of property, plant and equipment, prepaid premium on leasehold land, inventories, trade and other receivables and amount due from a related company. Segment liabilities consist primarily trade and other payables, amounts due to related companies and post-employment benefits. Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses and bank balances and cash.

(x) Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

2. CHANGES IN ACCOUNTING POLICIES

In 2007, the Group adopted the revised HKFRSs below, which were effective for accounting periods beginning on or after 1 January 2007 and relevant to its operations:

– HKFRS 7, Financial instruments: Disclosures

– Amendment to HKAS 1, Presentation of financial statements: Capital disclosures

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The Directors of the Company is currently assessing the impact of these HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's consolidated financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements [4]
HKAS 23 (Revised)	Borrowing Costs [4]
Amendment to HKFRS 2	Share-based Payment – Vesting Conditions and Cancellation [4]
HKFRS 8	Operating Segments [4]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions [1]
HK(IFRIC) – Int 12	Service Concession Arrangements [2]
HK(IFRIC) – Int 13	Customer Loyalty Programmes [3]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [2]

Note:

[1] Effective for annual periods beginning on or after 1 March 2007
[2] Effective for annual periods beginning on or after 1 January 2008
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 January 2009

3. TURNOVER AND REVENUE

The principal activities of the Group are manufacture and sales of headwear products, and sales of licensed products.

Turnover and revenue represent sales of goods at invoiced value to customers net of returns and discounts.

4. OTHER INCOME

	The Group	
	2007	2006
	HK$'000	HK$'000
Net gain from short term investments	**3,512**	4,614
Interest income	**6,778**	1,928
Sundry income	**2,330**	812
	12,620	7,354

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(a) Business segments

The Group comprises the following main business segments:

(i) Manufacturing Business: The Group manufactures headwear products for sale to its Trading Business and Retail Business as well as to external customers. The prime manufacturing facilities are located in Shenzhen and Panyu, the PRC. Customers are mainly located in the USA and Europe.

(ii) Trading Business: Before 2007, the trading and distribution of headwear and other products business of the Group were operated through three subsidiaries, Drew Pearson Marketing, Inc. ("DPM") which focused on the US market, and Drew Pearson International, Inc. ("DPI") and Drew Pearson International (Europe) Ltd. ("DPI Europe") which focus on the Europe market. On 31 December 2006, the Group disposed of the business and related assets and liabilities of DPM. Accordingly, the results of the trading and distribution business of DPM in the US for the year and the gain on the disposal have been classified as discontinued operation.

(iii) Retail Business: The Group operates LIDS stores in the PRC and Hong Kong, and Sanrio stores in the PRC.

	Continuing operation										Discontinued operation			
	Manufacturing		Trading		Retail		Inter-segment elimination		Total		Trading		Consolidation	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**380,780**	344,299	**50,463**	61,806	**107,798**	73,687	**–**	–	**539,041**	479,792	**–**	262,800	**539,041**	742,592
Inter-segment revenue	**15,291**	120,802	**–**	–	**–**	–	**(15,291)**	(120,802)	**–**	–	**–**	–	**–**	–
Total revenue	**396,071**	465,101	**50,463**	61,806	**107,798**	73,687	**(15,291)**	(120,802)	**539,041**	479,792	**–**	262,800	**539,041**	742,592
Other income	**3,224**	173	**54**	2	**1,155**	134	**–**	–	**4,433**	309	**–**	490	**4,433**	799
Total	**399,295**	465,274	**50,517**	61,808	**108,953**	73,821	**(15,291)**	(120,802)	**543,474**	480,101	**–**	263,290	**543,474**	743,391
Segment result and contribution from operations	**41,824**	87,993	**7,133**	4,871	**(3,599)**	(13,381)	**(184)**	(204)	**45,174**	79,279	**–**	(1,190)	**45,174**	78,089
Unallocated other income									**8,187**	6,525	**–**	30	**8,187**	6,555
Unallocated operating expenses									**(78)**	(200)	**–**	–	**(78)**	(200)
Profit/(loss) from operations									**53,283**	85,604	**–**	(1,160)	**53,283**	84,444
(Adjustment to gain)/ gain on disposal of assets and liabilities of a subsidiary									**–**	–	**(5,475)**	8,047	**(5,475)**	8,047
Finance costs									**(277)**	(167)	**–**	(41)	**(277)**	(208)
Taxation									**(5,940)**	(8,296)	**–**	(465)	**(5,940)**	(8,761)
Profit/(loss) for the year									**47,066**	77,141	**(5,475)**	6,381	**41,591**	83,522
Depreciation and amortisation	**24,270**	20,217	**92**	111	**6,249**	4,917	**–**	–	**30,611**	25,245	**–**	851	**30,611**	26,096
Significant non-cash expenses (other than depreciation and amortisation)	**359**	273	**95**	–	**–**	–	**–**	–	**454**	273	**–**	1,210	**454**	1,483
Unallocated									**78**	200	**–**	–	**78**	200
									532	473	**–**	1,210	**532**	1,683

	Continuing operation								Discontinued operation			
	Manufacturing		Trading		Retail		Total		Trading		Consolidation	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**340,467**	337,672	**9,312**	14,524	**49,862**	46,564	**399,641**	398,760	**–**	–	**399,641**	398,760
Unallocated assets							**197,007**	219,182	**–**	–	**197,007**	219,182
Total assets							**596,648**	617,942	**–**	–	**596,648**	617,942
Segment liabilities	**39,532**	50,963	**7,268**	7,236	**15,538**	15,616	**62,338**	73,815	**–**	–	**62,338**	73,815
Unallocated liabilities							**20,122**	27,847	**–**	–	**20,122**	27,847
Total liabilities							**82,460**	101,662	**–**	–	**82,460**	101,662
Capital expenditure incurred during the year	**33,234**	16,828	**22**	161	**2,784**	6,586	**36,040**	23,575	**–**	801	**36,040**	24,376

(b) Geographical segments

In presenting information on the basis of geographical segments, segment turnover is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

(i) Segment turnover

	2007	2006
	HK$'000	HK$'000
USA	**323,261**	558,996
Europe	**80,519**	93,257
HK and the PRC	**128,632**	80,301
Others	**6,629**	10,038
Total	**539,041**	742,592

(ii) Segment assets and capital expenditure

	Hong Kong, Macau and PRC		USA and Europe		Unallocated		Consolidation	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**390,329**	384,236	**9,312**	14,524	**197,007**	219,182	**596,648**	617,942
Capital expenditure incurred during the year	**36,018**	23,414	**22**	962	**–**	–	**36,040**	24,376

6. DISCONTINUED OPERATION

On 31 December 2006, the Group disposed of the business and related assets and liabilities of DPM at a cash consideration of US$8,000,000, subject to a downward adjustment for any shortfall between the value of net assets disposed of, excluding the tax provision on the profit on disposal, and US$6,700,000. In 2007, the downward adjustment of US$675,000 was agreed between the Group and the buyer, and such amount was charged to consolidated income statement as adjustment to gain on disposal of assets and liabilities of a subsidiary.

The (loss)/profit for the year from the discontinued operation which has been included in the consolidated income statement is analysed as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
(Loss)/profit on discontinued operation		
– Trading and distribution business in the US market	**–**	(1,666)
– (Adjustment to gain)/gain on disposal of assets and liabilities of a subsidiary, net of tax (note 33)	**(5,475)**	8,047
	(5,475)	6,381

The results of discontinued operation from 1 January 2006 to 31 December 2006 which have been included in the consolidated income statement were as follows:

	2006 HK$'000
Turnover and revenue	262,800
Cost of sales	(201,391)
Gross profit	61,409
Other income	520
Administration expenses	(63,089)
Loss from operations	(1,160)
Finance costs	(41)
Loss before taxation	(1,201)
Taxation	(465)
Loss for the year	(1,666)

The net cash flows of the discontinued operation from 1 January 2006 to 31 December 2006 were as follows:

	2006 HK$'000
Net operating cash inflow	14,919
Net investing cash outflow	(770)
Net financing cash inflow	505
Total net cash inflow	14,654

7. PROFIT/(LOSS) BEFORE TAXATION

This is stated after charging:

	The Group	
	2007	2006
	HK$'000	HK$'000
(a) Finance costs		
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	**277**	208
(b) Other items		
Employee remuneration (including directors' emoluments and retirement benefit costs)		
– Staff costs	**134,612**	157,827
– Share-based payments	**78**	200
	134,690	158,027
Cost of inventories	**365,957**	485,534
Auditors' remuneration	**914**	2,088
Depreciation	**30,478**	26,034
Amortisation on prepaid premium on leasehold land held for own use under an operating lease	**133**	62
Operating leases in respect of office premises, shops, factories and warehouses	**30,718**	33,222
Provision for impairment of trade receivables	**454**	1,483

8. DIRECTORS' EMOLUMENTS

	The Group	
	2007	2006
	HK$'000	HK$'000
Fees	**432**	359
Salaries, housing benefits, other allowances and benefits in kind	**5,229**	4,637
Discretionary bonuses	**–**	1,000
Share-based payments	**61**	–
Contributions to retirement scheme	**66**	84
	5,788	6,080

Remunerations for each of the Directors for the year are as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Share-based payments HK$'000	Retirement scheme contributions HK$'000	2007 Total HK$'000
Mr. Ngan Hei Keung	–	1,160	–	–	30	1,190
Madam Ngan Po Ling, Pauline	–	1,570	–	–	24	1,594
Mr. Cheung Wai Ching	–	792	–	61	3	856
Mr. Ho Hung Chu, Peter	–	1,707	–	–	9	1,716
Mr. Leung Shu Yin, William	96	–	–	–	–	96
Mr. Tse Kam Fow	120	–	–	–	–	120
Mr. Lo Hang Fong	96	–	–	–	–	96
Mr. Liu Tieh Ching, Brandon, JP	120	–	–	–	–	120
Total	432	5,229	–	61	66	5,788

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Share-based payments HK$'000	Retirement scheme contributions HK$'000	2006 Total HK$'000
Mr. Ngan Hei Keung	–	1,040	–	–	48	1,088
Madam Ngan Po Ling, Pauline	–	1,597	–	–	24	1,621
Mr. Ho Hung Chu, Peter	–	2,000	1,000	–	12	3,012
Mr. Leung Shu Yin, William	96	–	–	–	–	96
Mr. Tse Kam Fow	120	–	–	–	–	120
Mr. Lo Hang Fong	96	–	–	–	–	96
Mr. Liu Tieh Ching, Brandon, JP	47	–	–	–	–	47
Total	359	4,637	1,000	–	84	6,080

The emoluments payable to the directors are determined by reference to the duties and responsibilities.

According to the service contract with each of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline, Mr. Ngan and Madam Ngan are entitled to a discretionary bonus provided that the audited consolidated net profit after taxation but before extraordinary items (the "Profit") of the Group for the relevant year exceeds HK$40,000,000. The amount of the discretionary bonus is determined by the Board at its discretion, but in any event, the aggregate amount payable in each financial year to all executive directors shall not exceed 5% of the Profit. During the year, there was no discretionary bonus granted to Mr. Ngan and Madam Ngan.

Mr. Ho Hung Chu, Peter remained as employee of the Group after his resignation as an Executive Director and Chief Executive Officer of the Company on 25 September 2007. The remunerations to Mr. Ho disclosed above represented the remunerations for the period to 25 September 2007. There was no arrangement under which a director waived or agreed to waive any remuneration during the year. Except as disclosed in note 9, during the year, no emoluments were paid by the Group to the directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included three (2006: two) directors, details of whose remuneration are set out in note 8. The details of the emoluments of the remaining two (2006: three) highest paid individuals are as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Salaries and allowances	**3,046**	4,720
Discretionary bonuses	**1,440**	2,413
Join-in bonus	**–**	1,750
Compensation for the loss of office	**–**	1,959
Share-based payments	**17**	–
Contributions to retirement scheme	**12**	–
	4,515	10,842

The emoluments of these two (2006: three) employee are within the following bands:

	The Group	
	2007	2006
	HK$'000	HK$'000
HK$1,000,001-HK$1,500,000	**1**	–
HK$2,000,001-HK$2,500,000	**–**	1
HK$3,000,001-HK$3,500,000	**1**	1
HK$4,500,001-HK$5,000,000	**–**	1

10. TAXATION

	The Group	
	2007	2006
	HK$'000	HK$'000
Continuing operation:		
Hong Kong Profits Tax		
– Current year	**6,391**	7,392
– Over-provision in prior years	**(495)**	(292)
	5,896	7,100
PRC income tax	**676**	167
Overseas tax	**557**	312
Deferred taxation (note 27)	**(1,189)**	717
	5,940	8,296
Discontinued operation:		
Deferred taxation (note 27)	**–**	465
	5,940	8,761

The provision for Hong Kong Profits Tax for 2007 is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year. Taxation for PRC and overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Reconciliation of tax expenses

	The Group	
	2007	2006
	HK$'000	HK$'000
Profit before tax	**47,531**	92,283
Calculated at a taxation rate of 17.5% (2006: 17.5%)	**8,318**	16,150
Effect of different taxation rates in other countries	**110**	449
Non-deductible expenses	**1,188**	196
Tax exempt revenue	**(6,211)**	(11,041)
Unrecognised tax losses	**3,477**	2,389
Over-provision in prior years	**(495)**	(292)
Others	**(447)**	910
Tax expenses for the year	**5,940**	8,761

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

The profit attributable to equity holders dealt with in the financial statements of the Company for the year amounted to HK$1,398,000 (2006: HK$70,971,000).

12. DIVIDENDS

	The Company	
	2007	2006
	HK$'000	HK$'000
Interim dividend of 3 HK cents (2006: 3 HK cents) per share	**9,552**	8,587
Proposed final dividend of 5 HK cents (2006: 11 HK cents) per share	**15,920**	31,839
No special dividend is proposed (2006: 5 HK cents per share)	**–**	14,472
No bonus issue is proposed for the year	**–**	2,894
	25,472	57,792

A final dividend in respect of 2007 of 5 HK cents (2006: 11 HK cents) per share amounting to approximately HK$15,920,000 (2006: HK$31,839,000) has been proposed by the directors after the balance sheet date.

A special dividend of 5 HK cents per share amounting to HK$14,472,000 had been proposed by directors in 2006.

Bonus shares were issued on the basis of one share of HK$0.1 each credited as fully paid for every ten existing shares on 22 May 2007.

13. EARNINGS/(LOSS) PER SHARE

	The Group	
	2007	2006
	HK$'000	HK$'000
Earnings for the purposes of basic and diluted earnings per share		
Profit for the year attributable to equity holders of the Company	**41,702**	86,970
Adjust: loss/(profit) for the year from discontinued operation	**5,475**	(6,381)
Profit for the year from continuing operation	**47,177**	80,589

The basic earnings per share is based on the weighted average number of shares of 317,514,697 (2006: restated 314,870,084) for the year. The diluted earnings per share is based on 320,833,930 (2006: restated 316,159,181) shares which is the weighted average number of shares during the year adjusted for the number of dilutive potential shares under the share option schemes.

The numbers of shares for the purpose of calculating earnings/(loss) per share for the years ended 31 December 2007 and 2006 have been restated for the bonus shares issued in May 2007.

14. RETIREMENT SCHEMES

The Group operates a defined contribution retirement scheme in accordance with the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") covering about 10% of its employees in Hong Kong, which is registered under the ORSO and has obtained Mandatory Provident Fund ("MPF") exemption. Under the ORSO Scheme, the employer and the employees are each required to make contributions to the scheme at 5% of the employees' relevant income. Contributions forfeited during the year are available to reduce the contributions payable in future years.

The Group also operates a MPF Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the ORSO Scheme. Under the MPF Scheme, the employer and the employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000 and contributions to the MPF Scheme vested immediately.

The ORSO Scheme and the MPF Scheme are administered by independent trustees.

The subsidiaries of the Group in the PRC participate in pension schemes organised by the respective municipal governments whereby they are required to pay a fixed contribution as determined by the relevant authorities in the PRC for each employee.

Details of retirement schemes contributions for the Group's employees, net of forfeited contributions, which have been dealt with in the income statement of the Group are as follows:

	2007 **HK$'000**	2006 HK$'000
Gross retirement schemes contributions	**693**	1,911
Less: Forfeited contributions for the year	**–**	–
Net retirement schemes contributions	**693**	1,911

As at 31 December 2007, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Hong Kong Employment Ordinance, which are unprovided for.

15. PROPERTY, PLANT AND EQUIPMENT

	Furniture and equipment HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Construction in progress HK$'000	Motor vehicles HK$'000	Total HK$'000
The Group						
Cost						
At 1 January 2006	28,856	31,223	139,853	–	6,928	206,860
Additions	2,143	5,661	13,389	2,424	759	24,376
Acquisition of subsidiaries	2,336	–	47,898	191	811	51,236
Disposal of assets and liabilities of a subsidiary	(2,504)	(964)	(12,147)	–	–	(15,615)
Disposals	(2,869)	(305)	(16)	–	(448)	(3,638)
Exchange differences	521	392	1,761	30	113	2,817
At 31 December 2006 and 1 January 2007	28,483	36,007	190,738	2,645	8,163	266,036
Additions	2,208	2,781	17,586	11,324	2,141	36,040
Disposals	(22)	(1,635)	(183)	–	–	(1,840)
Exchange differences	707	935	4,874	555	233	7,304
At 31 December 2007	**31,376**	**38,088**	**213,015**	**14,524**	**10,537**	**307,540**
Accumulated depreciation						
At 1 January 2006	22,132	14,630	55,038	–	3,038	94,838
Charge for the year	3,171	6,204	15,288	–	1,371	26,034
Acquisition of subsidiaries	1,334	–	22,752	–	628	24,714
Disposal of assets and liabilities of a subsidiary	(2,358)	(777)	(10,762)	–	–	(13,897)
Eliminated on disposals	(2,848)	(305)	(1)	–	(209)	(3,363)
Exchange differences	328	128	843	–	55	1,354
At 31 December 2006 and 1 January 2007	21,759	19,880	83,158	–	4,883	129,680
Charge for the year	3,303	7,371	18,209	–	1,595	30,478
Eliminated on disposals	(15)	(1,519)	(62)	–	–	(1,596)
Exchange differences	478	465	1,786	–	129	2,858
At 31 December 2007	**25,525**	**26,197**	**103,091**	**–**	**6,607**	**161,420**
Net book value						
At 31 December 2007	**5,851**	**11,891**	**109,924**	**14,524**	**3,930**	**146,120**
At 31 December 2006	6,724	16,127	107,580	2,645	3,280	136,356

16. PREPAID PREMIUM ON LEASEHOLD LAND HELD FOR OWN USE UNDER AN OPERATING LEASE

	The Group HK$'000
Cost	
At 1 January 2006	–
Acquisition of subsidiaries	2,449
Exchange difference	74
At 31 December 2006 and 1 January 2007	2,523
Exchange difference	161
At 31 December 2007	**2,684**
Accumulated amortisation	
At 1 January 2006	–
Acquisition of subsidiaries	1,237
Charge for the year	62
Exchange difference	26
At 31 December 2006 and 1 January 2007	1,325
Charge for the year	133
Exchange difference	85
At 31 December 2007	**1,543**
Net book value	
At 31 December 2007	**1,141**
At 31 December 2006	1,198

The leasehold land is situated in the PRC under medium-term land use rights.

17. INTERESTS IN SUBSIDIARIES

	The Company	
	2007 **HK$'000**	2006 HK$'000
Unlisted shares, at cost	**99,631**	99,631
Due from subsidiaries (note (i))	**243,314**	288,877
	342,945	388,508

Notes:

(i) The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayments.

(ii) Particulars of the Company's subsidiaries are set out in note 40.

18. GOODWILL

	The Group HK$'000
Carrying value	
At 1 January 2006	10,262
Acquisition of subsidiaries	3,203
Disposal of a subsidiary	(6,758)
At 31 December 2006 and 1 January 2007	6,707
Increase in shareholding of a subsidiary	1,454
At 31 December 2007	**8,161**

In accordance with HKAS 36 "Impairment of Assets", the Group completed its annual impairment test for goodwill allocated to the Group's various cash generating units ("CGUs") by comparing their recoverable amount to their carrying amount as at the balance sheet date.

	The Group	
	2007 HK$'000	2006 HK$'000
Manufacturing business	**3,203**	3,203
Retail business	**4,958**	3,504
	8,161	6,707

The recoverable amount of each CGU is determined based on value-in-use calculations. These calculations use cash flow projection based on three-year financial budgets.

	Manufacturing business		**Retail business**	
	2007	2006	**2007**	2006
Growth rates	**10%**	10%	**15%**	30%
Discount rates	**10%**	10%	**10%**	10%

The present value of financial budgets is calculated by discounting with pre-tax rates of approximately 10%. The budgeted gross margin and net profit margin were determined by the management for each individual CGU based on past performance and its expectations for market development. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

19. INTANGIBLES

Intangibles represent the fair value of purchase orders committed by the vendor to the Group in respect of the acquisition of Bollman (Hong Kong) Limited and Guang Zhou Jian Hao Headwear Manufacturing Ltd. (formerly called Kangol Headwear (Panyu) Limited) ("Panyu Factory", together, "Bollman Subsidiaries") in 2006.

	The Group	
	2007	2006
	HK$'000	HK$'000
At 1 January/initial recognition	**10,033**	9,741
Interest recognised in the income statement	**570**	292
Amortisation	**–**	–
At 31 December	**10,603**	10,033

20. INVENTORIES

	The Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**44,696**	48,148
Work-in-progress	**22,409**	15,746
Finished goods	**40,522**	29,232
	107,627	93,126

The amount of inventories, included in above, carried at net realisable value is HK$33,377,000 (2006: HK$35,104,000).

21. TRADE AND OTHER RECEIVABLES

	The Group	
	2007	2006
	HK$'000	HK$'000
Trade and bills receivables	**99,612**	146,145
Less: provision for doubtful debts	**(1,997)**	(1,552)
	97,615	144,593
Deposits, prepayments and other debtors	**46,287**	85,118
	143,902	229,711

(a) Ageing analysis of trade and bills receivables

The ageing analysis of trade and bills receivables (net of specific provisions for doubtful debts) at the balance sheet date is as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
0 – 30 days	**41,237**	49,400
31 – 60 days	**20,585**	28,614
61 – 90 days	**7,752**	13,602
Over 90 days	**28,041**	52,977
	97,615	144,593

The Group's credit policy is set out in note 31(b)(ii).

(b) Impairment of trade and bills receivables

A provision for impairment of trade receivables will be made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial re-organisation and default or delinquency in payments are considered indicators that the trade receivable is impaired.

Impairment losses in respect of trade and bills receivables are recorded using a provision for doubtful debt account unless the Group is of the view that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly.

The movement in provision for doubtful debt during the year is as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
At 1 January	**1,552**	8,733
Impairment loss recognised	**454**	1,483
Uncollectible amounts written off	**(9)**	(2,585)
Disposal of assets and liabilities of a subsidiary	**–**	(6,113)
Exchange differences	**–**	34
At 31 December	**1,997**	1,552

It represents provisions that were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. The Group does not hold any collateral over these balances.

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Neither past due nor impaired	**52,683**	66,748
1 – 30 days past due	**16,518**	20,895
30 – 60 days past due	**10,525**	13,031
Over 60 days past due	**17,767**	43,630
	97,493	144,304

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment provision is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

22. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

The amounts due from/(to) related companies are unsecured, interest-free, and have no fixed repayment terms.

23. SHORT TERM INVESTMENTS

Short term investments are investments in listed and unlisted equity and are stated at fair value which represents market value.

24. TRADE AND OTHER PAYABLES

	The Group	
	2007	2006
	HK$'000	HK$'000
Trade and bills payables	**29,180**	36,607
Accrued charges and other creditors	**32,242**	35,998
	61,422	72,605

The ageing analysis of trade and bills payables as at the balance sheet date is as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
0 – 30 days	**17,060**	16,436
31 – 60 days	**8,371**	14,227
61 – 90 days	**1,006**	2,925
Over 90 days	**2,743**	3,019
	29,180	36,607

25. LONG TERM PAYABLES

Long term payables represent the fair value of US$2,475,000 minimum earnout payable from year 2009 to 2011 to the vendor in respect of the acquisition of the Bollman Subsidiaries in 2006, net of the compensation of US$1,200,000 payable by the vendor for the operation loss of Bollman Subsidiaries for the year from 1 July 2006 to 30 June 2007.

26. POST-EMPLOYMENT BENEFITS

The balance represents the provision for long services payments to employees.

27. DEFERRED TAXATION

At the balance sheet date, components of the deferred tax assets and liabilities of the Group provided are as follows:

	The Group			
	Assets		Liabilities	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Depreciation allowances	**–**	–	**(3,622)**	(4,965)
Provisions	**–**	3	**–**	–
Others	**36**	190	**–**	–
Deferred tax assets/(liabilities)	**36**	193	**(3,622)**	(4,965)

In accordance with the accounting policy set out in note 1(p), the Group and the Company have not recognised deferred tax assets in respect of cumulative tax losses of HK$40,462,000 and nil respectively (2006: HK$29,360,000 and HK$128,000 respectively) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

The movements for the year in the Group's net deferred tax liabilities position are as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Net deferred tax (liabilities)/assets at 1 January	**(4,772)**	4,792
Disposal of assets and liabilities of a subsidiary	**–**	(8,409)
Exchange differences	**(3)**	27
Credit/(charge) for the year (note 10)	**1,189**	(1,182)
Net deferred tax liabilities at 31 December	**(3,586)**	(4,772)

28. SHARE CAPITAL

The following is a summary of the movements in the issued share capital of the Company during the two years ended 31 December 2007:

	Note	Number of shares of HK$0.10 each	HK$'000
Authorised:			
At 1 January 2006, 31 December 2006 and **31 December 2007**		**1,000,000,000**	100,000
Issued and fully paid:			
At 1 January 2006 and 31 December 2006		286,245,531	28,625
Issue of shares pursuant to share option scheme before bonus shares issued	(a)	3,202,000	320
Bonus shares issued	(b)	28,944,753	2,894
		318,392,284	31,839
Issue of shares pursuant to share option scheme after bonus shares issued	(c)	10,000	1
As at 31 December 2007		**318,402,284**	31,840

Note:

(a) During the year ended 31 December 2007, options were exercised to subscribe for 130,000 shares at the exercise price of HK$1.228 per share, 2,997,000 shares at the exercise price of HK$2.3 per share and 75,000 shares at the exercise price of HK$2.7 per share under the share option schemes before the bonus shares issued (note b).

(b) Pursuant to a resolution approving the allotment and issue of one bonus share for every ten existing shares held passed by the shareholders of the Company at the annual general meeting of the Company held on 22 May 2007, a total of 28,944,753 shares of HK$0.1 each were issued and allotted, credited as fully paid by way of capitalisation of reserves.

(c) During the year ended 31 December 2007, options were exercised to subscribe for 10,000 shares at the exercise price of HK$2.091 per share under the share option schemes after bonus shares issued.

These newly issued shares rank pari passu with the existing shares.

29. EQUITY SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Prior to 23 May 2002, the Company operated an option scheme whereby the Board of Directors could, at their absolute discretion, grant options to employees and executive directors of the Company and any of its subsidiaries to subscribe for shares in the Company (the “Old Scheme”). On 23 May 2002, the Old Scheme was terminated and a new share option scheme (the “New Scheme”) was adopted, whereby the Board of Directors may, at their absolute discretion, grant options to any eligible employees, including directors of the Company or any of its subsidiaries or any invested entity, any suppliers of goods or services to any member of the Group or any invested entity, and any customers of the Group or any invested entity to subscribe for shares in the Company.

For options granted before 1 September 2001, the exercise price of options was determined by the Board and was the higher of the nominal value of the shares and 80% of the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. For options granted after 1 September 2001, the exercise price of the options was the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer of the options and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Group may not in aggregate exceed 30,536,058, being 10% of the shares in issue of the Company as at 23 May 2002, the date of adoption of the New Scheme adjusted for the issue of bonus shares on 22 May 2007.

The options granted were vested one year from the date of grant and generally have a vesting term of three years.

(a) Movements in share options

	2007		2006	
	Number of share options	**Weighted average exercise price (note) HK$**	Number of share options	Weighted average exercise price (note) HK$
At 1 January	**24,830,000**	**2.25**	24,830,000	2.25
Granted	**4,000,000**	**2.29**	–	–
Exercised	**(3,212,000)**	**2.06**	–	–
Bonus shares issued	**2,162,800**	**–**	–	
Lapsed	**(9,136,600)**	**2.37**	–	–
As 31 December	**18,644,200**	**2.25**	24,830,000	2.25
Options vested at 31 December	**14,644,200**	**2.23**	24,830,000	2.25

At the balance sheet date, the weighted average remaining contractual life of the Company's share options was 5.3 years (2006: 4.8 years). Details of the range of exercise price for these options outstanding at the end of year are set out in the Report of the Directors on page 32.

Note: Weighted average exercise prices have been adjusted for the bonus shares issued in May 2007.

(b) Details of share options exercised during the year are as follows:

Exercise price (note)	2007 Number of share options	2006 Number of share options
HK$1.116	130,000	–
HK$2.091	10,000	
HK$2.091	2,997,000	–
HK$2.455	75,000	–
	3,212,000	–

The weighted average share price at the date of exercise for shares options exercised during the year was HK$3.18.

Note: Exercise price and weighted average share price have been adjusted for the bonus shares issued in May 2007.

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on a Black-Scholes pricing mode. The inputs into the model were as follows:

	2007
Weighted average share price	HK$2.12
Weighted average exercise price	HK$2.25
Expected volatility	35.6%
Expected life	5 years
Risk free rate	5.75%
Expected dividend yield	6%

The expected volatility is based on the historic volatility of share prices of the Company. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services rendered. There were no market conditions associated with the share option grants.

30. RESERVES AND MINORITY INTERESTS

The Group	Share premium HK$'000	Contributed surplus HK$'000	Accumulated profits HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Total HK$'000	Minority interests HK$'000
	Attributable to equity holders of the Company						
At 1 January 2006	94,820	25,878	306,375	6,394	(353)	433,114	4,233
Profits for the year	–	–	86,970	–	–	86,970	(3,448)
Exchange differences	–	–	–	–	6,432	6,432	350
Disposal of a subsidiary	–	–	–	–	(122)	(122)	–
2005 final dividend paid	–	–	(31,487)	–	–	(31,487)	–
2006 interim dividend paid (note 12)	–	–	(8,587)	–	–	(8,587)	–
Equity settled share-base transactions	–	–	–	200	–	200	–
At 31 December 2006	94,820	25,878	353,271	6,594	5,957	486,520	1,135
Representing:							
2006 proposed final dividend (note 12)	–	–	31,839	–	–	31,839	
2006 proposed special dividend (note 12)	–	–	14,472	–	–	14,472	
2006 proposed bonus issue (note 12)	2,894	–	–	–	–	2,894	
Reserves	91,926	25,878	306,960	6,594	5,957	437,315	
	94,820	25,878	353,271	6,594	5,957	486,520	
At 1 January 2007	94,820	25,878	353,271	6,594	5,957	486,520	1,135
Profits for the year	–	–	41,702	–	–	41,702	(111)
Exchange differences	–	–	–	–	2,997	2,997	416
Increase in shareholding of a subsidiary	–	–	–	–	–	–	1,414
2006 final dividend paid (note 12)	–	–	(31,839)	–	–	(31,839)	–
2006 special dividend paid (note 12)	–	–	(14,472)	–	–	(14,472)	–
Issue of bonus shares (note 12)	(2,894)	–	–	–	–	(2,894)	–
2007 interim dividend paid (note 12)	–	–	(9,552)	–	–	(9,552)	–
Exercise of share options	8,277	–	–	(1,323)	–	6,954	–
Share options lapsed	–	–	737	(737)	–	–	–
Equity settled share-base transactions	–	–	–	78	–	78	–
At 31 December 2007	**100,203**	**25,878**	**339,847**	**4,612**	**8,954**	**479,494**	**2,854**
Representing:							
2007 proposed final dividend (note 12)	–	–	15,920	–	–	15,920	
Reserves	100,203	25,878	323,927	4,612	8,954	463,574	
	100,203	25,878	339,847	4,612	8,954	479,494	

The Company	Share premium HK$'000	Contributed surplus HK$'000	Accumulated profits HK$'000	Capital reserve HK$'000	Total HK$'000
At 1 January 2006	94,820	99,431	130,994	6,394	331,639
Profit for the year	–	–	70,971	–	70,971
2005 final dividend paid	–	–	(31,487)	–	(31,487)
2006 interim dividend paid (note 12)	–	–	(8,587)	–	(8,587)
Equity settled share-base transactions	–	–	–	200	200
At 31 December 2006	94,820	99,431	161,891	6,594	362,736
Representing:					
2006 proposed final dividend (note 12)	–	–	31,839	–	31,839
2006 proposed special dividend (note 12)	–	–	14,472	–	14,472
2006 proposed bonus issue (note 12)	2,894	–	–	–	2,894
Reserves	91,926	99,431	115,580	6,594	313,531
	94,820	99,431	161,891	6,594	362,736
At 1 January 2007	94,820	99,431	161,891	6,594	362,736
Profits for the year	–	–	1,398	–	1,398
2006 final dividend paid (note 12)	–	–	(31,839)	–	(31,839)
2006 special dividend paid (note 12)	–	–	(14,472)	–	(14,472)
Issue of bonus shares (note 12)	(2,894)	–	–	–	(2,894)
2007 interim dividend paid (note 12)	–	–	(9,552)	–	(9,552)
Exercise of share options	8,277	–	–	(1,323)	6,954
Share options lapsed	–	–	737	(737)	–
Equity settled share-base transactions	–	–	–	78	78
At 31 December 2007	**100,203**	**99,431**	**108,163**	**4,612**	**312,409**
Representing:					
2007 proposed final dividend (note 12)	–	–	15,920	–	15,920
Reserves	100,203	99,431	92,243	4,612	296,489
	100,203	99,431	108,163	4,612	312,409

(a) The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group's reorganisation for the purpose of the listing of the Company's shares on the Stock Exchange in late 2000 over the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company represents the difference between the then combined net asset value of the subsidiaries acquired pursuant to the same reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

Under the Companies Act 1981 of Bermuda, contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
(ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(b) The capital reserve of the Group and the Company represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments in note 1(u).

(c) As at 31 December 2007, the Company's reserves available for cash distribution amounted to HK$207,594,000 (2006: HK$261,322,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK$100,203,000 (2006: HK$94,820,000) may be distributed in the form of fully paid bonus shares. Bonus issue amounted to HK$2,894,000 was made on the basis of one share of HK$0.1 each credited as fully paid for every ten existing shares in May 2007.

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and to support the Group's substainable growth and to provide capital for the purpose of potential mergers and acquisitions.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings, and makes adjustments to the capital structure in light of changes in economic conditions. During 2007, the Group's strategy, which was unchanged from 2006, was to maintain its gearing ratio at zero.

31. FINANCIAL RISK MANAGEMENT

(a) Categories of financial instruments

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Loans and receivables (include cash and cash equivalents):				
– Trade and other receivables	**143,902**	229,711	**305**	7
– Amount due from a related company	**851**	768	**–**	–
– Bank balances and cash	**95,874**	139,247	**1,182**	3,311
	240,627	369,726	**1,487**	3,318
Financial assets at fair value through profit or loss:				
– Short term investments	**81,582**	–	**–**	–
	322,209	369,726	**1,487**	3,318
Financial liabilities				
Amortised cost:				
– Trade and other payables	**61,422**	72,605	**–**	465
– Amounts due to related companies	**843**	1,038	**–**	–
– Secured short term bank loan	**–**	6,000	**–**	–
– Long term payables	**8,573**	8,114	**–**	–
	70,838	87,757	**–**	465

(b) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

In light of the simplicity of the operations, the risk management of the Group is carried out by the Board of Directors directly. The Board discusses both formally and informally principles for overall risk management, as well as policies covering specific areas, such as foreign currency exchange risk, interest rate risk, credit risk, liquidity risk and use of financial instruments.

(i) Market risk

a. Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars and Renminbi.

The Group does not hedge its foreign currency risks with United States dollars as the rate of exchange between Hong Kong dollars and the United States dollars is controlled within a tight range. Permanent changes in foreign exchange rates would have an impact on consolidated financial statements.

At 31 December 2007, if Hong Kong dollar had weakened/strengthened by 10% against the Renminbi with all other variables held constant, post-tax profit for the year and accumulated profits would have been HK$2,985,000 (2006: HK$5,774,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Renminbi-denominated trade and other receivables, trade and other payables and bank balances and cash. The Group does not hedge its foreign currency risks with Renminbi. The 10% change is estimated by the management as reasonably possible over the period until the next annual balance sheet date.

In respect of other trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

b. Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

At 31 December 2007, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and accumulated profits by approximately HK$479,000 (2006: HK$666,000). The 50 basis point increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

c. Price risk

The Group is exposed to equity price risk through its investments in listed and unlisted equity. If the market bid prices of the investments had been 10% higher/lower, the Group's net profit after tax and accumulated profits would increase/decrease by approximately HK$8,158,000 for the year ended 31 December 2007 (2006: Nil). This is mainly attributable to the changes in fair values of the investments in listed and unlisted equity held for trading purpose.

The sensitivity analysis above has been determined based on the exposure to equity price risk at the respective year end date and the change in the estimated price movement and other variables remain constant. A 10% change is used when reporting the price risk internally to the management. The management constantly reviews the portfolio of equity investments and maintains the Group's exposures to price risk within an acceptable level.

(ii) Credit risk

The Group's credit risk is primarily attributable to trade receivables, trade deposit and short term investments. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Trade receivables are due within 30 to 90 days from the date of billing depending on the trading relationship. Credit evaluations of customers are performed by the Group from time to time to minimise any credit risk associated with receivables. In addition, customers with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

Short term investments in equity are made normally with counterparties that have sound credit ratings. Given their high credit ratings, management does not expect any investment counterparty to fail to meet its obligations.

At the balance sheet date, the Group has a certain concentration of credit risk as 9% (2006: 6%) and 44% (2006: 13%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of trade receivables, trade deposit and short term investments in the balance sheet.

(iii) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants by reviewing each operating entity's cash flow forecast, to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The Group continues to enjoy financing for its operations by internally generated cash flows. The Group maintained its gearing ratio at zero and the Group will have sufficient financial resources to meet its commitments and working capital requirements.

The Group's financial liabilities at the balance sheet date will normally be settled within 3 months.

(c) Fair value

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006.

32. CASH GENERATED FROM OPERATIONS

	The Group	
	2007	2006
	HK$'000	HK$'000
Profit before taxation	**47,531**	92,283
Interest income	**(6,778)**	(1,928)
Interest expenses	**277**	208
Adjustment to gain/(gain) on disposal of assets and liabilities of a subsidiary	**5,475**	(8,047)
Loss on disposal of property, plant and equipment	**74**	–
Net gains from short term investments	**(3,512)**	(4,614)
Depreciation and amortisation	**30,611**	26,096
Write-back of post-employment benefits	**(99)**	–
Equity-settled share-based payment expenses	**78**	200
Provision for doubtful debts	**454**	1,483
Changes in working capital:		
Inventories	**(12,315)**	11,630
Trade and other receivables	**74,794**	(4,361)
Trade and other payables	**(12,093)**	(2,886)
Cash generated from operations	**124,497**	110,064

33. DISPOSAL OF ASSETS AND LIABILITIES OF A SUBSIDIARY

In addition to note 6 to the financial statements, summary of the effect of disposal of assets and liabilities of a subsidiary is set out below.

Details of the net assets of DPM disposed of by the Group in December 2006 were as follows:

	HK$'000
Assets and liabilities disposed of:	
Property, plant and equipment	1,718
Inventories	28,207
Trade and other receivables	72,032
Tax recoverable	2,475
Bank balances and cash	17,528
Trade and other payables	(80,502)
Obligations under finance leases	(541)
	40,917
Goodwill	6,758
Gain on disposal of assets and liabilities of a subsidiary	13,026
Total consideration and direct costs capitalised	60,701
Total consideration and direct costs capitalised:	
Cash consideration receivable	62,240
Direct costs capitalised	(1,539)
	60,701
Gain on disposal of assets and liabilities of a subsidiary, net of tax (note 6):	
Gain on disposal	13,026
Provision for income tax	(4,979)
	8,047
Net cash outflow arising on acquisition of subsidiaries:	
Direct costs paid	(1,039)
Bank balances and cash disposed of	(17,528)
	(18,567)

34. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases of land and buildings which are payable as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**19,221**	19,403
In the second to fifth years inclusive	**8,661**	14,656
Over five years	**18,553**	16,150
	46,435	50,209

In addition, the Group has operating lease commitments in respect of retail outlets with rentals determined in relation to sales. It is not possible to quantify accurately future rentals payable under such leases. Contingent rentals expensed in the income statement amounted to HK$12,063,000 (2006: HK$7,030,000).

35. CAPITAL COMMITMENTS

At 31 December 2007, the Group had capital expenditure commitments as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Contracted but not provided for		
– Manufacturing business	**4,858**	5,648
– Retail business	**10,638**	–
Authorised but not contracted for		
– Manufacturing business	**2,487**	20,632
– Retail business	**2,302**	1,562
	20,285	27,842

36. FINANCIAL GUARANTEE

At 31 December 2007, the Company had executed a corporate guarantee of HK$124,800,000 (2006: HK$64,800,000) to secure general banking facilities granted to subsidiaries. Facilities utilised by the subsidiaries amounted to HK$1,554,000 as at 31 December 2007 (2006: HK$6,631,000).

37. MATERIAL RELATED PARTY TRANSACTION

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

	The Group	
	2007	2006
	HK$'000	HK$'000
Rental paid in respect of office premises to a company controlled by a director	**960**	960
Guarantee provided by a minority shareholder for bank facilities granted to a subsidiary	**1,500**	1,500

Note: The above transaction falls under the definition of connected transaction or continuing connected transaction in Chapter 14A of the Listing Rules. The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Short term employee benefits	**12,083**	18,579
Share-based payments	**78**	–
Retirement scheme contributions	**97**	108
	12,258	18,687

Total remuneration is included in "employee remuneration" in note 7.

38. SUBSEQUENT EVENTS

(i) Acquisition of a subsidiary

In October 2007, the Group through it wholly owned subsidiary, entered into an agreement to acquire 100% equity interest of 北京疊翠旅遊紀念品有限責任公司 ("Diecui"), a PRC incorporated company which is engaging in running souvenir and gift shops in Beijing, the PRC, for a cash consideration of RMB26,000,000. Upon the completion of the agreement on 1 January 2008, the Group had 100% equity interest in Diecui, which has become a subsidiary of the Company. Details of the identified assets and liabilities acquired, extracted from the unaudited financial statements of Diecui, and the goodwill arising from the acquisition are set out below:

	Carrying value and fair value HK$'000
Net assets acquired:	
Property, plant and equipment	2,512
Trade and other receivable	6,235
Bank balances and cash	5,194
Inventory	10,783
Trade and other payable	(13,134)
Tax payable	(383)
	11,207
Goodwill	16,061
Direct expenses incurred in relation to the acquisition	100
Total cash consideration	27,368

Goodwill is attributable to gaining control and exclusive power over Diecui in relation to the benefits of future market development in retailing business in the PRC.

(ii) Acquisition of a joint venture:

On 28 January 2008, the Group entered into a Subscription Agreement with Din Tsun Holding Co., Ltd. and Large Forever Ltd. for a 36% equity interest in Keen Idea Group Ltd. ("Keen Idea"). Keen Idea is a company which is engaged in headwear manufacturing business, with its factory based in Vietnam. The total investment cost in Keen Idea is HK$22.5 million, which comprises HK$9.8 million cash consideration and HK$12.7 million capital injection commitment.

(iii) Litigations

On 6 March 2008, the Company, through its US attorney, filed a complaint in the United District court for the Southern District of New York against Drew Pearson Marketing LLC and USPA Accessories LLC d/b/a Concept One (collectively, the "Defendants") for breaches of the terms and conditions of an Asset Purchase Agreement ("APA") and a Manufacturing Agreement ("MA") entered with the Company in December 2006, the transactions of which were announced and circulated on 11 December 2006 and 29 December 2006 respectively. The Company is seeking a declaratory judgement, which can release the Company from any further performance under the said APA and a judgement for monetary damages plus interest under the said MA.

Subsequent to the filing of the Complaint on 6 March 2008, the Company, through its US attorney, came to know that the USPA Accessories LLC d/b/a Concept One had filed a Complaint against the Company for a non-compliance of certain obligations under the MA, and sought from the Company for monetary damages, plus a declaratory judgement finding that the MA would be void and not enforceable.

The directors strongly refute the allegations from Concept One and consider them to be without merit, and as such, are determined to vigorously having those allegations defended. On basis of the information currently available to us, the Company's US attorney feels optimistic that the case will likely be decided in the Company's favour.

39. COMPARATIVE FIGURES

In accordance with the change in the Group's internal financial reporting, the Group has determined that certain comparative figures of the Group's segment information have been reclassified to conform to the current year's presentation.

40. PRINCIPAL SUBSIDIARIES

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

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Interest held	Principal activities
Big One Holdings Ltd.	The British Virgin Islands	Hong Kong	US$10,000	100%	Investment holding
Bollman (Hong Kong) Limited	Hong Kong	PRC	HK$29,352,260	100%	Trading of headwear
Dongguan Mainland Headwear Co., Ltd.	The PRC (note ii)	PRC	HK$10,000,000	100%	Manufacture and sale of headwear
Drew Pearson International, Inc. (note iii)	United States of America	The United Kingdom	US$833	100%	Trading of headwear
Drew Pearson International (Europe) Ltd.	The United Kingdom	The United Kingdom	£10,000	90%	Trading of headwear
Futureview Investment Ltd.	The British Virgin Islands	Hong Kong	US$196 (2006: US$100)	75% (2006: 51%)	Investment holding
Great Champion International Co., Ltd.	The British Virgin Islands	Hong Kong	US$10,000	100%	Investment holding
Hatworld (Hong Kong) Ltd.	Hong Kong	Hong Kong	HK$1	100%	Retailing
Hatworld (Shenzhen) Ltd.	The PRC (note ii)	PRC	HK$8,500,000	100%	Retailing
Guang Zhou Jian Hao Headwear Manufacturing Ltd. (formerly called Kangol Headwear (Panyu) Limited)	The PRC (note ii)	PRC	RMB45,777,729	100%	Manufacture and sale of headwear

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Interest held	Principal activities
Jumbo Creation Investments Limited	The British Virgin Islands	Hong Kong	HK$1	100%	Investment holding
Mainland Sewing Headwear Manufacturing Limited	Hong Kong	Hong Kong	HK$10,000	100%	Manufacture and sale of headwear
Mainland Sewing Mills (Shenzhen) Co., Ltd. (note iii)	The PRC (note ii)	PRC	HK$26,000,000	100%	Manufacture and sale of headwear
Manga Investments Ltd.	Mauritius	Macau	US$1	100%	Investment holding
Million Excel Trading Limited	The British Virgin Islands	Hong Kong	US$1	100%	Investment holding
PPW Asia Ltd.	Hong Kong	Hong Kong	HK$2	75% (2006: 51%)	Investment holding
Rhys Trading Ltd.	The British Virgin Islands	Hong Kong	US$10,000	100%	Investment holding
Top Super Investments Ltd.	The British Virgin Islands	Hong Kong	US$10,000	100%	Investment holding
Top Super Sportswear (Shenzhen) Co., Ltd.	The PRC (note ii)	PRC	HK$52,000,000 (2006: HK$30,000,000)	100%	Manufacture and sale of headwear
United Crown International Macao Commercial Offshore Ltd.	Macau	Macau	MOP$100,000	100%	Trading of headwear and provision of digitizing services
上海成顏豐商貿有限公司	The PRC (note ii)	PRC	RMB10,000,000	75% (2006: 51%)	Retailing

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Interest held	Principal activities
深圳市大同啟豐實業有限公司	The PRC (note i)	PRC	RMB1,000,000	75% (2006: 51%)	Retailing
北京大同啟豐商貿有限公司	The PRC (note i)	PRC	RMB1,000,000	75% (2006: 51%)	Retailing
廣州市天開貿易有限公司	The PRC (note i)	PRC	RMB1,000,000	75% (2006: 51%)	Trading and wholesales

Other than Rhys Trading Ltd. which is held directly by the Company, all subsidiaries are held by the Company indirectly.

Notes:

(i) These companies are registered in the PRC in the form of a limited liability company.

(ii) These companies are registered in the PRC in the form of wholly foreign-owned enterprises.

(iii) These companies were dormant during 2007.

41. ULTIMATE HOLDING COMPANY

As at 31 December 2007, the ultimate holding company of the Company was Successful Years International Company Limited, a company incorporated in the British Virgin Islands.

Financial Summary

For the year ended 31 December 2007
Consolidated Results

	Year ended 31 December				
	2003 (restated) HK$'000	2004 (restated) HK$'000	2005 HK$'000	2006 HK$'000	**2007 HK$'000**
Turnover and revenue	469,905	557,470	586,717	742,592	**539,041**
Cost of sales	(295,905)	(349,206)	(368,922)	(485,534)	**(365,957)**
Gross profit	174,000	208,264	217,795	257,058	**173,084**
Other income	2,132	4,903	11,438	7,354	**12,620**
Selling and distribution costs	(4,694)	(10,971)	(24,310)	(45,877)	**(55,459)**
Administration expenses	(97,118)	(114,101)	(123,068)	(134,091)	**(76,962)**
Profit from operations	74,320	88,095	81,855	84,444	**53,283**
(Adjustment to gain)/gain on disposal of assets and liabilities of a subsidiary	–	–	–	8,047	**(5,475)**
Finance costs	(202)	(69)	(30)	(208)	**(277)**
Profit before taxation	74,118	88,026	81,825	92,283	**47,531**
Taxation	(7,737)	(7,771)	(6,153)	(8,761)	**(5,940)**
Profit for the year	66,381	80,255	75,672	83,522	**41,591**
Attributable to:					
Equity holders of the Company	65,027	80,255	77,772	86,970	**41,702**
Minority interests	1,354	–	(2,100)	(3,448)	**(111)**
Profit for the year	66,381	80,255	75,672	83,522	**41,591**
Dividends					
– Interim dividend paid	5,669	8,562	5,724	8,587	**9,552**
– Proposed final dividend	22,675	28,618	31,487	31,839	**15,920**
– Proposed special dividend	–	–	–	14,472	**–**
– Proposed bonus issue	–	–	–	2,894	**–**
	(restated)	(restated)	(restated)	(restated)	
Earnings per share Basic	20.9 HK cents	25.6 HK cents	24.7 HK cents	27.6 HK cents	**13.1 HK cents**
Earnings per share Diluted	19.7 HK cents	23.5 HK cents	24.5 HK cents	27.5 HK cents	**13.0 HK cents**

Financial Summary

For the year ended 31 December 2007
Consolidated Results

	As at 31 December				
	2003 (restated) HK$'000	2004 (restated) HK$'000	2005 HK$'000	2006 HK$'000	**2007** **HK$'000**
Non-current assets	124,644	133,398	133,015	154,487	**166,061**
Current assets	309,104	363,346	416,778	463,455	**430,587**
Current liabilities	67,153	74,722	77,191	88,411	**70,192**
Net current assets	241,951	288,624	339,587	375,044	**360,395**
Non-current liabilities	8,482	7,426	6,630	13,251	**12,268**
Net assets	358,113	414,596	465,972	516,280	**514,188**

Note: The results for two years ended 31 December 2007 and 2006 have been extracted from the audited consolidated income statement which is set out on page 37 to page 38 of the annual report.