Mainland Headwear Holdings Limited

(Stock code: 1100)

Look ahead • Get a hat

Annual Report 2008

Directors

Executive Directors

Mr. Ngan Hei Keung *(Chairman)*
Madam Ngan Po Ling, Pauline
(Deputy Chairman and Managing Director)
Mr. Luh Yih Ping
Mr. James S. Patterson

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 HM 11,
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 HM 11,
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
http://www.mainlandheadwear.com

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 2008.

Business Review and Prospects

Overview

Mainland Headwear faced unprecedented challenges in 2008 including the financial tsunami and global economic downturn posting immense pressure on the Group's order volume. The Group's gross margin was also squeezed because of the increased production costs as a result of appreciation of the RMB and rocketing material prices and wages.

To mitigate the impacts of external influence on the Group, Manufacturing Business stepped up implementation of the LEAN production management model during the period, which notably enhanced the operational and production efficiency of the factories. In addition, at its effort to secure new customers, the Group signed a manufacturing agreement with New Era Cap Co., Inc. ("New Era"), the world's largest headwear manufacturer in the US, last year. During the year, the Group also signed an agreement to invest in Keen Idea Group Ltd. ("Keen Idea"). With Vietnam as its manufacturing base, Keen Idea serves major brand customers of the Group as an alternative choice of production facility.

Regarding Retail Business, the Group acquired the entire equity interest of a tourist-souvenir retailer in Beijing, 北京疊翠旅遊紀念品有限責任公司 ("Diecui"), last January to expand its retail network to major tourist spots in Beijing.

Financial Review

For the year ended 31 December 2008, the Group's turnover increased by approximately 13% to HK$610,959,000 (2007: HK$539,041,000), which was mainly attributable to Diecui acquired in January 2008. Gross profit and loss attributable to shareholders were HK$170,373,000 (2007: HK$173,084,000) and HK$29,259,000 (2007: profit attributable to shareholders of HK$41,702,000) respectively.

The loss incurred by the Group for this period was mainly due to regression of the manufacturing business, the approximately HK$28,348,000 of impairment of goodwill and intangibles related to Diecui operation and Bollman Group, and the approximately HK$4,570,000 share of loss of Keen Idea.

The Manufacturing Business segment had a drastic drop in orders due to Concept One's breach of the manufacturing agreement. That plus the new orders landed carrying lower gross profit, the weak US market, appreciation of the RMB and increasing wages and material costs had hampered performance of the segment relative to the previous year.

As for the Retail Business, because the PRC government tightened entry policies during the Beijing 2008 Olympic Games, tourist traffic was substantially lower than expected and the business of Diecui also reported less than expected performance. The segment was also affected during the year by risen rental and wages.

Manufacturing Business

During the year under review, the Manufacturing Business continued to be the Group's major revenue contributor. It reported turnover of HK$399,368,000, comparable to that of last year (2007: HK$396,071,000), which accounted for 62.1% of the total turnover of the Group.

With the US market softening and Concept One breaching the manufacturing agreement signed with the Group in May 2007 during the period under review, the number of orders dropped substantially. The agreement with Concept One required it to make minimum purchase from the Group annually, starting from an initial value of US$20,000,000 in the first year, the purchase amount will gradually increase to US$35,000,000 in the seventh year (or 65% of Concept One's total annual purchase if the order value fell below the stated range). In March 2008, the Group took appropriate legal actions against Concept One to recover related financial losses. To mitigate the impact of the incident, the Group actively looked for new customers in the US market and via its trading arm in Europe and also strived to capture opportunities presented by the Beijing 2008 Olympic Games. However, as it took time to secure new customers and business was hampered by the authority tightening entry policies during the Olympics, the Group was only able to cushion off part of the impact and maintained turnover of the segment at a level similar to last year.

Having to face various external uncertainties last year, including continuous appreciation of the RMB, rising wages and material costs and new orders carrying lower gross profit, the gross margin of manufacturing business was squeezed and slightly below 20%. Furthermore, as a result of the under-performance of the management from joint venture partners of Keen Idea, the Group had to share its loss incurred of approximately HK$4,570,000, and that also affected the overall performance of the Group.

Operating profit amounted HK$364,000 (2007: HK$41,824,000), which was mainly due to the approximately HK$11,146,000 of impairment of intangibles related to Bollman Group and the squeeze in profit margin.

In January 2008, the Group invested in Keen Idea at a cash consideration of US$2,520,000, representing 36% equity interest in Keen Idea. Strategically located in Vietnam, Keen Idea offers an alternative manufacturing base to the Group's major customers, hence boosting the Group's competitiveness.

To counter different challenges, the Group adopted the LEAN production management model at its Shenzhen factory at the beginning of last year to help streamline management structure and enhance production efficiency. The move allowed the Group to partially offset the impact of the drop in gross margin of the Manufacturing Business. Heeding the satisfactory results, the Group implemented the model at all its production lines in September 2008.

Efforts of the Group to secure new customers also paid off. In October 2008, the Group signed a 7-year manufacturing agreement with New Era, which was expected to bring stable and promising income to the Group. Pursuant to the agreement, New Era will purchase headwear products manufactured and supplied by the Group between 1 January 2009 and 31 December 2015, and it also has the right to acquire a stake in the Company to become a strategic shareholder. The total amount of headwear covered in this agreement will be up to US$160,000,000, with the minimum purchase amount of US$5,000,000 in the first year. Related orders are expected to be reflected in the financial year of 2009.

Trading Business

During the period under review, turnover from the European Trading Business of the Group amounted to HK$45,622,000 (2007: HK$50,463,000), accounting for 7.5% of the Group total. Operating profit was HK$4,987,000 (2007: HK$7,133,000). The weak Sterling Pound was the main reason for the decrease in turnover and operating profit.

The segment continued to ride on its strong business relations with European retailers to expand the customer base for the Manufacturing Business and create synergies.

Retail Business

Benefited by the increasing turnover of Sanrio and the newly-acquired Diecui operation, turnover surged 73% to HK$185,916,000 (2007: HK$107,798,000), accounting for about 30.4% of the Group's total turnover. Operating loss amounted to HK$22,838,000 (2007: HK$3,599,000), which was mainly attributable to the HK$17,202,000 impairment of goodwill related to Diecui operation, increasing staff costs and rental expenses. Excluding the impairment, operating loss of the Retail Business was approximately HK$5,636,000.

Sanrio

Turnover from Sanrio increased by 14% to HK$85,806,000 (2007: HK$75,458,000). However, with salary level and store rental increasing in China pushing up operating costs of the Group, the profit margin of the business was slightly squeezed. Consequently, Sanrio operation recorded an operating loss of HK$3,680,000 for the year.

Determined to capitalise on the tremendous growth potential of the consumer market in China, the Group actively expanded its retail network in the country during the year under review. To boost the exposure and image of the brand, the Gift Gate Jungle Store at Sanlitun, a prime district in Beijing, was opened in November 2008. As at 31 December 2008, the Group had 49 self-owned stores and 60 franchise stores.

LIDS

Turnover from LIDS for the year under review was HK$27,923,000 (2007: HK$32,340,000). Operating loss narrowed by 10% to HK$3,732,000 (2007: HK$4,152,000).

Facing rising rental and operating costs in Hong Kong, the Group closed the store in Lee Garden Road in Causeway Bay in October 2008 and opened new stores in Tsuen Wan and Tuen Mun, which promised greater operational flexibility and better returns. Since the stores began operation only in October and November respectively, turnover was temporarily affected.

In the PRC market, the Group continued to expand the operation of LIDS through franchising. As at 31 December 2008, the Group had 31 LIDS self-owned stores in business, of which 23 were in the PRC and 8 in Hong Kong. In addition, the Group had 17 LIDS franchise stores in the PRC.

Diecui

Diecui, which joined the Mainland Headwear family in the beginning of 2008, did not only allow the Group to immediately extend its retail network to popular sightseeing spots in Beijing, but had also given it a new income source. During the year under review, turnover of Diecui business was HK$72,187,000. Excluding the impairment of HK$17,202,000, operating profit of the business was HK$1,776,000. As at 31 December 2008, the Group had 4 self-owned stores, namely Badaling, the Temple of Heaven, the Forbidden City and the Summer Palace, and 36 franchise stores in operation.

Prospects

Looking ahead, the prospects of the global economy will still be uncertain in 2009, meaning the business environment will continue to be tough. Nevertheless, the Group is well-prepared to take on the challenging economic conditions and seize every emerging market opportunity.

Manufacturing Business

Wages and raw material prices are expected to stay steady in 2009, which will be beneficial to the Group in keeping sales cost and other operating expenses stable.

The agreement with New Era has introduced New Era to become a strategic shareholder with 5% stake in the Group. The amicable relationship between the two companies is expected to bring stable and significant revenue to the Group, with orders in the first year substantially higher than the previously agreed amount.

In addition, the Group secured a new customer, which is a leading casual wear retail chain in Japan. The first batch of orders was shipped in January 2009, translating into additional incomes for the Group.

The Group implemented the LEAN production management model at all its production lines in September 2008. Related procedures and practices have progressed smoothly, helping to reduce wastage of raw materials and improve output rates, thereby enhancing overall operational and production efficiency.

Moreover, the Group had entered into an acquisition agreement in February 2009 to increase its stake in Keen Idea from 36% to 60% at a consideration of US$560,000. When the acquisition is completed, the Group will be able to consolidate the control over the management of Keen Idea and boost its performance. In fact, since after the Group appointed a new management to Keen Idea in mid 2008 to carry out reforms, Keen Idea had reported notably improved turnover and operational efficiency. The Group is confident that Keen Idea will be able to be breakeven in the second quarter of 2009.

Regarding the litigation in relation to Concept One breach of the manufacturing agreement signed with the Group, the Group believes the dispute will be settled within 2009.

Trading Business

As for Trading Business, the trading arm of the Group will continue to build on the strong relationship with leading retailers in Europe to help Manufacturing Business expand customer base, as well as create better synergies to benefit the Group at large.

Retail Business

Sanrio

With the global financial crisis leading to a difficult operating environment, the Group not only has been active in negotiating for lower rentals with landlords, but has also strived to streamline operation, thereby raising the operational efficiency of the business. The Group will also continue to develop the business by increasing the number of franchise stores. It also plans to boost profit by increasing the sales proportion of own designed products with higher margins.

In January 2009, the Group announced that Promotional Partners Worldwide Limited ("PPW") and its substantial shareholder had committed material defaults in fulfilling and observing their obligations under the Shareholders' Agreement. PPW is the joint venture partner of Futureview Investment Limited ("Futureview"), the Group's non wholly-owned subsidiary operating the Sanrio business. Thus, the Group has proposed to buy out the 25% shareholding in Futureview held by PPW at a fair market price determined by a recognised international accounting firm jointly appointed by the Group and PPW. The proposed acquisition is not confirmed to date. The Group will make announcements as and when appropriate pursuant to listing rules.

LIDS

The Group will focus on developing its own brands, which boosts a higher profit margin. It will identify more distribution channels for the brand to increase returns. The Group will also strengthen the image of LIDS and other own brand headwear via its self-owned stores, which is expected to attract franchisees for the LIDS operation. These measures are expected to help LIDS achieve breakeven in 2009.

Diecui

After the Beijing 2008 Olympic Games, the Group will continue to sell licensed Olympic products and further develop its tourist souvenir retail business.

Acknowledgement

The management is dedicated to implementing various strategic measures in the future so as to improve the turnover and profit of the Group and continue to deliver the best return to shareholders. On behalf of Mainland Headwear, I would like to express my sincere gratitude to all shareholders, staff members, customers and suppliers for their tireless support.

Ngan Hei Keung
Chairman

Hong Kong
8 April 2009


LEAN manufacturing system production line

Liquidity and Financial Resources

As at 31 December 2008, the Group had cash, bank balances and a portfolio of liquid investments totaling HK$153.5 million (2007: HK$177.5 million). About 44% and 37% of these liquid funds were denominated in US dollars and Renminbi respectively and the remainder mainly in HK dollars and Pound Sterling.

The decrease in liquid funds was mainly attributable to the acquisition of a joint venture by the Group at a consideration of HK$19.7 million in 2008.

As at 31 December 2008, the Group had banking facilities of HK$105.0 million (2007: HK$102.0 million), of which HK$103.3 million (2007: HK$100.4 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 a Subsidiary and a Joint Venture

In 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 retail 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.

Goodwill arising from the acquisition of 100% interests in Diecui amounted to HK$17,202,000 which was fully impaired and charged to in the consolidated income statement for the year ended 31 December 2008.

Lids store

Sanrio/Hello Kitty store

In 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 of the Group in Keen Idea is HK$19.7 million.

Goodwill arising from the acquisition of 36% interests in Keen Idea amounted to HK$2,897,000.

Capital Expenditure

During the year, the Group spent approximately HK$10.3 million (2007: HK$33.2 million) on the construction of an additional factory building, which was almost ready to use at the end of 2008, and additions to plant and equipment to upgrade its manufacturing capability. The Group had also spent HK$4.4 million (2007: HK$2.8 million) on the retail systems and opening of new retail stores in 2008.

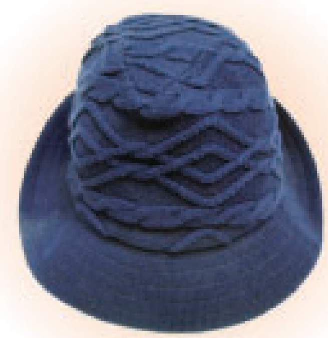
For the year 2009, the Group has budgeted HK$7.6 million for capital expenditure to enhance its production capacity and efficiency, and HK$4.0 million for the enhancement of systems of retail operations.

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

Subsequent Events

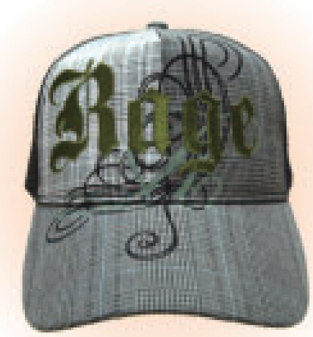
(i) Acquisition of additional 24% interests in a joint venture

In February 2009, the Group entered into a sales and purchase agreement with Forever Wise Holdings Limited for a 24% equity interest in Keen Idea. At a consideration of HK$4.4 million. After the acquisition, the Group's interests in Keen Idea increased from 36% to 60% and Keen Idea becomes a non-wholly owned subsidiary of the Group. The increase in shareholding would enable the Group to manage the operation in a more effective and efficient manner.

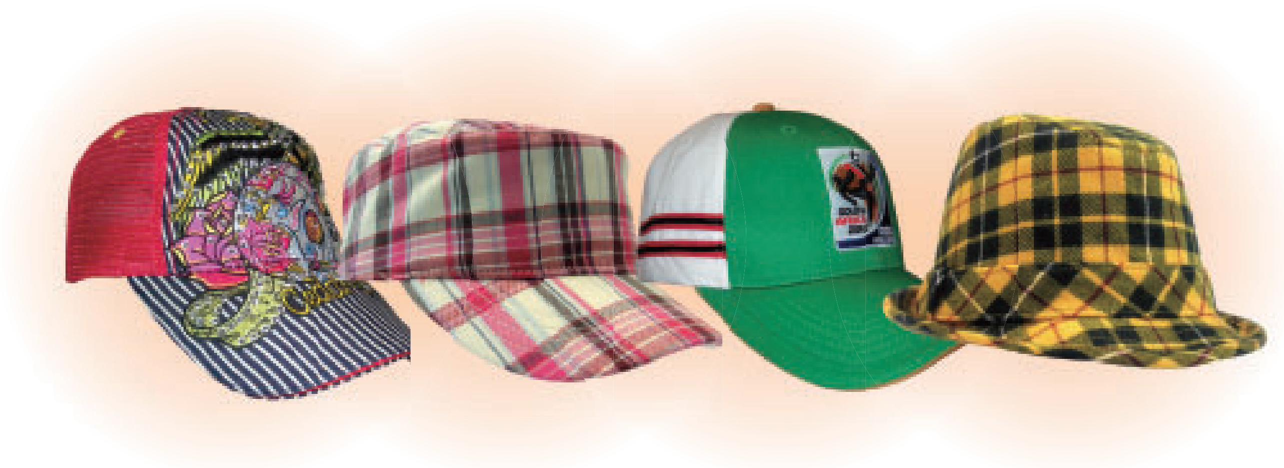


(ii) Disputes

The Group and Promotional Partners Worldwide Limited ("PPW", now replaced by Licensing Partners Limited) currently hold 75% and 25% equity interest in Futureview Investment Limited ("Futureview"). Futureview and its subsidiaries are principally engaged in the sourcing, production and sale of Sanrio Products in the PRC.



In December 2008, PPW through its lawyer issued a letter to terminate the shareholders' agreement owing to the alleged material defaults and/or non-observance of the Company's obligation under the shareholders' agreement. In January 2009, the Company served a notice ("Notice") to PPW and Mr. Chan (who is the major shareholder of PPW) to terminate the shareholders' agreement and require them to sell their 25% equity interest in Futureview to the Group in accordance with the termination clause of the Shareholders' Agreement, at fair market price to be determined by a recognised international accountancy firm jointly appointed by the Group and PPW.



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 2008, the Group employed 109 (2007: 109) employees in Hong Kong and Macau, and 3,249 (2007: 3,595) employees in the PRC and a total of 6 (2007: 6) employees in the UK. The expenditures for employees during the year were approximately HK$152.3 million (2007: HK$134.7 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 53, 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's Political Consultative Conference and the Honorary Adviser (2007-2009) of the Asian Knowledge Management Association. Mr. Ngan was a director of Yan Oi Tong in 2007. Mr. Ngan is the husband of Madam Ngan Po Ling, Pauline.

Madam Ngan Po Ling, Pauline

aged 49, 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 Po Leung Kuk and Yan Oi Tong. She is also a standing committee member of The Chinese General Chamber of Commerce, the vice president of Hong Kong Young Industrialists Council, the vice chairman of the Youth Committee of the All-China Federation of Returned Overseas Chinese, the vice president of the China Federation of Overseas Chinese Entrepreneurs, the committee member of All-China Women's Federation, 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 Awards of Hongkong 2001 and also earned an Executive Director Award in the "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. Luh Yih Ping

aged 47, is the Chief Operating Officer of the Company. Mr. Luh graduated from National Taiwan University, Taipei, Taiwan, major in Mechanical Engineering. Mr. Luh completed a Master Degree and PhD in Mechanical and Aerospace Engineering at Cornell University, USA. Mr. Luh is the President of a Canadian Company which is engaged in the provision of consultancy service in supply chain management, I.T. and business management to global brand corporations. Mr. Luh is also the consultant to Li Ning Company Limited and Adidas Group, and was consultant of Yue Yuen Industrial (Holdings) Limited from 2001 to 2005.

Mr. James S. Patterson

aged 38, is the Executive Director of the Company. Mr. Patterson graduated from the State University of New York at Buffalo, Buffalo, NY, USA and completed a Bachelor Degree in Economics. Mr. Patterson has been employed for the past 14 years with New Era Cap Co., Inc. ("New Era"), a US based company which is engaged in the global marketing, sale, and manufacturing of headwear and apparel. Mr. Patterson has held the position of VP Global Operations of New Era for the past 4 years.

Non-executive Director

Mr. Tse Kam Fow

aged 49, 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 Jia Sheng Holdings Limited, which is listed in the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Independent Non-executive Directors

Mr. Leung Shu Yin, William

aged 59, 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 Bel Global Resources Holdings Limited, all listed in the main board of the Stock Exchange.

Mr. Lo Hang Fong

aged 45, 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 63, 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 48, 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 41, 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 international accounting field for many years.

Ms. Oei Oi Leung, Linda

aged 60, 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. Maggie Gu

aged 32, first joined the Company in May 2003 and rejoined us as Sales and Marketing Director on February 2009. She studied in United States of America, and graduated from the California State University, with the degree of Bachelor of Arts in Communications. She managed the global marketing department with a reputable media company in US before she resumed to Hong Kong. She is now in charge of the Sales and Marketing department of the Company, responsible for the strategy formulation and direction of global marketing and business development in US and Europe markets.

Mr. Yeung Huen, Anthony

aged 44, 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.

Ms Leung Ka Pik, Ada

aged 47, 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 international accounting firm for many years.

The Company is committed to maintaining a high standard of corporate governance practices. The Board considers shareholders can maximise 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 2008, 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. Directors

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 2008 are as follows:

Number of meetings		7
Executive Directors		
Mr. Ngan Hei Keung	*(Chairman)*	7
Madam Ngan Po Ling, Pauline	*(Deputy Chairman and Managing Director)*	7
Mr. Luh Yih Ping	*(Chief Operating Officer appointed on 12 November 2008)*	0
Mr. Cheung Wai Ching	*(Chief Executive Officer resigned on 11 November 2008)*	6
Non-executive Director		
Mr. Tse Kam Fow		3
Independent Non-executive Directors		
Mr. Leung Shu Yin, William		4
Mr. Lo Hang Fong		4
Mr. Liu Tieh Ching, Brandon, JP		1

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 comments 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.

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 four Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, Mr. Luh Yih Ping and Mr. James S. Patterson; one Non-executive Director, Mr. Tse Kam Fow, and three Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Lo Hang Fong and Mr. 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 14 to 16 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 the member 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 A.4.1. 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 work in connection with the nomination and appointment of new Directors during 2008 included reviewing the Board composition and reviewing and making recommendation to the Board on appointment of new Directors. During the year of 2008, one meeting in connection with the nomination and appointment of new Directors was held. 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 the 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 scrutinise 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 2008.

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. Remuneration of directors and senior management

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 Madam Ngan Po Ling, Pauline, Mr. Leung Shu Yin, William, Mr. Lo Hang Fong and Mr. Liu Tieh Ching, Brandon, JP.

The meeting of the Committee is held at least once a year or when necessary. The Remuneration Committee held two meetings in 2008, which were attended by all members of the Committee, except Mr. Liu Tieh Ching, Brandon, JP, who attended one meeting in 2008. The Committee 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 2008 are set out in note 10 to the financial statements. Details of the share option schemes of the Company are set out in the Report of the Director and note 32 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. Account ability and audit

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 acknowledge their responsibility to keep proper accounting records and prepare 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 2008, 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 Independent Auditors' Report on page 41 to 42 of the annual report for the year ended 31 December 2008.

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 2008 which were attended by all members of the Committee, except Mr. Leung Shu Yin, William who attended one meeting in 2008 and Mr. Liu Tieh Ching, Brandon, JP who had not attended any meeting in 2008.

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 2008;

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 2009;

4. Reviewed and approved the Group's internal audit plan for 2009;

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 2007; and

7. Reviewed the Interim Report and the interim results announcement for the six months ended 30 June 2008.

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 2009.

The remuneration of the Group's external auditors is HK$1,172,000 for statutory audit fees as disclosed in note 9 to the financial statements and HK$94,000 for other non-assurance services.

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. Delegation by the Board

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. Communication with shareholders

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 2008 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 2009 Annual General Meeting to answer questions of shareholders.

E.2. Voting by Poll

The right to demand a poll was set out in the circular to shareholders of the Company dispatched together with the Annual Report.

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 2008.

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 43 to the financial statements.

Segmental Information

Details of segmental information are set out in note 7 to the financial statements.

Results and Appropriation

An interim dividend of 2 HK cents (2007: 3 HK cents) per share, totaling HK$6,368,000 was paid on 16 October 2008. The Directors now recommend the payment of a final dividend of 3 HK cents (2007: 5 HK cents) per share in respect of the year ended 31 December 2008. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 5 June 2009 to the shareholders whose names appear on the register of members at the close of the business on 15 May 2009.

The register of members of the Company will be closed from 18 May 2009 to 21 May 2009 (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 15 May 2009.

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 111 to 112.

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	–	13%
Five largest customers in aggregate	–	30%
The largest supplier	11%	–
Five largest suppliers in aggregate	26%	–

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$15,002,000 (2007: HK$36,040,000) on construction of a factory building, additions to property, plant and equipment to upgrade its manufacturing capabilities, and on opening of retail stores. Details of movements in property, plant and equipment are set out in note 17 to the financial statements.

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 31 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 33 to the financial statements.

As at 31 December 2008, the Company's reserves available for cash distribution amounted to HK$199,663,000 (2007: HK$207,594,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK$100,203,000 (2007: HK$100,203,000) as at 31 December 2008 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$3,588,677 (2007: HK$1,136,000).

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. Luh Yih Ping	*(Chief Operating Officer, appointed on 12 November 2008)*
Mr. Cheung Wai Ching	*(Chief Executive Officer, resigned on 11 November 2008)*

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

The following Executive Director was appointed after the end of the financial year:

Mr. James S. Patterson	*(appointed on 7 April 2009)*

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. Tse Kam Fow shall retire by rotation at the forthcoming annual general meeting. Mr. Luh Yih Ping and Mr. James S. Patterson, being Directors appointed by the Board after the Company's annual general meeting held on 26 May 2008, will hold office until the forthcoming annual general meeting pursuant to the Company's Bye-Law No. 86(2). All of the retiring Directors, being eligible, offer themselves for re-election.

Under the manufacturing agreement signed by the Company with New Era Cap Asia Pacific Limited ("NE") in October 2008, in event that NE has exercised share options granted by the Company so that NE is holding not less than 9% of the issued share capital of the Company on or after 1 April 2009 but before 10 October 2009, NE is entitled to nominate a candidate (during the aforesaid period) to join the Board of Directors of the Company and the nomination is subject to the approval of the Board of Directors of the Company and compliance with the Rules Governing the Listing of Securities on the Stock Exchange. Mr. James S. Patterson was invited and appointed by the Company as the Executive Director of the Company on 7 April 2009. After this appointment, NE is no longer entitled to nominate any director to join the Board of Directors of the Company.

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. James S. Patterson, has 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.

Mr. Luh Yih Ping, 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 41 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 2008, 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	–	200,848,000 *(note 1,2)*	39,800,000 *(note 3)*	240,648,000	71.80%
Madam Ngan Po Ling, Pauline	17,148,000 *(note 2)*	183,700,000 *(note 1)*	39,800,000 *(note 3)*	240,648,000	71.80%

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 17,148,000 shares are beneficially owned by Madam Ngan, the spouse of Mr. Ngan.

(3) Pursuant to the contingent purchase deed dated 21 October 2008 between Mr. Ngan, Madam Ngan and New Era Cap Asia Pacific Limited ("NE"), NE is entitled to require Mr. Ngan and Madam Ngan to purchase up to 39,800,000 shares on the terms and conditions of the said deed.

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

(1) 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 scheme mandate limit was refreshed on 28 November 2008. Upon refreshing of the scheme mandate limit, the Company may grant options up to a maximum of 31,840,228 shares, representing 10% of the shares in issue of the Company as at 28 November 2008.

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 42,218,686 shares, which represented 12.6% of the issued share capital of the Company as at 31 March 2009.

At 31 December 2008, 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$0.8 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 (HK$)	Outstanding at 01.01.2008	Granted during the year	Lapsed during the year	Outstanding at 31.12.2008	Market value per share at date of grant (HK$)
Old Scheme								
Employees	11.06.2001	11.06.2002 – 10.06.2009	1.116	301,400	–	–	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
	11.11.2008	11.11.2008 – 10.11.2018	0.800	–	3,000,000	–	3,000,000	0.80
				3,000,000	3,000,000	(3,000,000)	3,000,000	
Employees	03.07.2002	03.07.2003 – 02.07.2010	2.455	4,361,500	–	–	4,361,500	2.45
	03.06.2003	03.06.2004 – 02.06.2013	2.091	7,836,300	–	–	7,836,300	2.09
	04.12.2007	04.12.2007 – 03.12.2017	2.020	1,000,000	–	(1,000,000)	–	1.99
	11.06.2008	11.06.2008 – 10.06.2018	1.190	–	1,000,000	–	1,000,000	1.16
				13,197,800	1,000,000	(1,000,000)	13,197,800	
Customers and suppliers	03.07.2002	03.07.2003 – 02.07.2010	2.455	2,145,000	–	–	2,145,000	2.45
				2,145,000	–	–	2,145,000	

(2) Under the manufacturing agreement signed between a wholly owned subsidiary of the Company and NE, in consideration of the purchase commitment given by NE, the Company agreed to grant NE the right to subscribe for certain numbers of shares ("Option") subject to the terms and conditions of the manufacturing agreement.

Option consists of three tranches with their respective exercise periods as below:

Tranche No.	Number of underlying shares	Exercise period
1	16,750,000	01.04.2009 – 02.01.2010
2	25,000,000	01.02.2010 – 31.07.2010
3	21,093,000	01.08.2010 – 31.01.2011
	62,843,000	

Any part of the Option which has not been exercised during their respective exercise period shall be expired and automatically cancelled on the expiry of the exercise period.

The total number of underling shares of option amounts to 62,843,000 shares, representing 18.75% of the issued share capital of the Company as at 31 March 2009.

The exercise price shall be determined based on certain discount applied to average of the closing price for thirty trading days prior to the date of exercise (inclusive if it is a trading day) and the level of discount depends on (i) the closing price on the relevant date; and (ii) whether NE fulfills the minimum purchase commitment during the year ended 31 December 2009 and 2010 ("Annual Periods") within six months after commencement of Annual Periods.

Average closing price for thirty trading days before the date of exercise	*Discount level to be applied to the exercise price per share*	
	Earlier fulfillment condition not fulfilled (Note)	*Earlier fulfillment condition fulfilled* (Note)
Less than or equal to HK$3.00	12.5%	14.5%
More than HK$3.00 and equal to or less than HK$4.00	14%	15%
More than HK$4.00 and equal to or less than HK$5.00	16%	17%
Above HK$5.00	20%	20%

Note:

(i) During the period from 1 January 2009 to 30 June 2009, if the actual aggregate purchase by New Era exceeds the minimum annual consideration in accordance with the Manufacturing Agreement, NE is entitled to higher discount levels set out in above to any parts of Tranche No. 1 option which remain outstanding as of 30 June 2009.

(ii) During the period from 1 January 2010 to 30 June 2010, if the actual aggregate purchase by New Era exceeds the minimum annual consideration in accordance with the Manufacturing Agreement, NE is entitled to higher discount levels set out in above to any parts of Tranche No. 2 and Tranche No.3 option which remain outstanding as of 30 June 2010.

(iii) In no event, the exercise price will be above HK$8.00 per option share or will be below the prevailing nominal value of the shares.

(iv) The probability of earlier fulfillment condition not fulfilled adopted by the Group is 30%.

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 2008, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 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 were as follows:

Long positions in the shares and underlying shares:

		Number of shares				
Name	Capacity	Personal interest	Other interest	Underlying shares	Total	Percentage of interest
Successful Years International Co., Ltd. (note 1)	Beneficial owner	183,700,000	–	–	183,700,000	54.81%
Standard Chartered Trust (Cayman) Limited (formerly called Amex International Trust (Cayman) Ltd.) (note 1)	Trustee	–	183,700,000	–	183,700,000	54.81%
Mr. Christopher Koch (note 2)	Interest of a controlled corporation	–	16,758,000	62,843,000	79,601,000	23.75%
New Era Cap Hong Kong LLC (note 2)	Interest of a controlled corporation	–	16,758,000	62,843,000	79,601,000	23.75%
New Era Cap Asia Pacific Limited (note 2)	Beneficial owner	16,758,000	–	62,843,000	79,601,000	23.75%

Notes:

1. 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. Standard Chartered Trust (Cayman) Limited 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.

2. Pursuant to the manufacturing agreement, New Era Cap Asia Pacific Limited ("NE") is entitled to subscribe for 16,758,000 shares and to be granted option of 62,843,000 underlying shares subject to the terms and conditions of the manufacturing agreement. Mr. Christopher Koch owns 75% of the issued share capital of New Era Cap Hong Kong LLC which in turn owns 100% of the issued share capital of NE. As such, Mr. Christopher Koch and New Era Cap Hong Kong LLC are deemed to be interested in the 16,758,000 shares and 62,843,000 underlying shares.

Short positions in the underlying shares:

Name	Number of underlying shares	Percentage of interest
Mr. Christopher Koch	39,800,000 *(note)*	12.5%
New Era Cap Hong Kong LLC	39,800,000 *(note)*	12.5%
New Era Cap Asia Pacific Limited ("NE")	39,800,000 *(note)*	12.5%

Note:

Pursuant to the contingent purchase deed dated 21 October 2008 between Mr. Ngan, Madam Ngan and NE, NE is entitled to sell up to 39,800,000 shares to Mr. Ngan and Madam Ngan on the terms and conditions of the said deed. In view of Mr. Koch's 75% shareholding interest in New Era Cap Hong Kong LLC which beneficially owns the entire issued share capital of NE, Mr. Koch and New Era Cap Hong Kong LLC are also taken to have interest in short position of 39,800,000 underlying shares.

Save as disclosed above, as at 31 December 2008, 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 16 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 2008, 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 8 April 2009, being the date of this report.

AUDITORS

Moores Rowland Mazars audited the financial statements of the Company for the year ended 31 December 2006. On 1 June 2007, Moores Rowland Mazars changed its name to Moores Rowland and combined its business into Grant Thornton. Accordingly, Grant Thornton has been appointed as the auditors of the Company since year 2007.

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, 8 April 2009

Grant Thornton
均富

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 43 to 110, which comprise the consolidated and the Company's balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the 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.

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 auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors 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 the Group as at 31 December 2008 and of the loss and cash flows of the Group 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

8 April 2009

	Note	2008 HK$'000	2007 HK$'000
Turnover and revenue	5	610,959	539,041
Cost of sales		(440,586)	(365,957)
Gross profit		170,373	173,084
Other income	6	9,133	12,620
Selling and distribution costs		(69,533)	(55,459)
Administration expenses		(99,071)	(76,962)
Other operating expense		(4,861)	–
Impairment of goodwill and intangibles	21, 22	(28,348)	–
(Loss)/profit from operations		(22,307)	53,283
Share of results of a jointly controlled entity	20	(4,570)	–
Adjustment to gain on disposal of assets and liabilities of a subsidiary	8	–	(5,475)
Finance costs		(86)	(277)
(Loss)/profit before taxation	9		
Continuing operation		(26,963)	53,006
Discontinued operation		–	(5,475)
		(26,963)	47,531
Taxation			
Continuing operation	12	(2,857)	(5,940)
(Loss)/profit for the year			
Continuing operation		(29,820)	47,066
Discontinued operation		–	(5,475)
		(29,820)	41,591

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Attributable to:			
Equity holders of the Company			
Continuing operation		(29,259)	47,177
Discontinued operation		–	(5,475)
		(29,259)	41,702
Minority interests		(561)	(111)
(Loss)/profit for the year		(29,820)	41,591
Dividends	14	16,423	25,472
(Loss)/earnings per share	15		
Basic			
Continuing operation		(9.2 HK cents)	14.8 HK cents
Discontinued operation		–	(1.7 HK cents)
		(9.2 HK cents)	13.1 HK cents
Diluted			
Continuing operation		N/A	14.7 HK cents
Discontinued operation		N/A	(1.7 HK cents)
		N/A	13.0 HK cents

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Note	2008 HK$'000	2008 HK$'000	2007 HK$'000	2007 HK$'000
Total equity at 1 January			514,188		516,280
(Loss)/profit for the year	33		(29,820)		41,591
Net income recognised directly in equity:					
Exchange differences	33		13,272		3,413
Total recognised income and expense for the year					
Attributable to:					
Equity holders of the Company		(16,265)		44,699	
Minority interests		(283)		305	
			(16,548)		45,004
Dividends	14,33		(22,288)		(58,757)
Movements in equity arising from capital transactions:					
Shares issued under share option schemes	31,33	–		7,275	
Bonus shares issued	31,33	–		2,894	
Equity settled share-based payment transactions	33	713		78	
Minority interest of subsidiaries acquired during the year	33	–		1,414	
			713		11,661
Total equity at 31 December			476,065		514,188

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	17	138,696	146,120
Prepaid premium on leasehold land held for own use under an operating lease	18	1,075	1,141
Interests in a jointly controlled entity	20	15,136	–
Goodwill	21	4,958	8,161
Intangibles	22	–	10,603
Deferred tax assets	30	28	36
		159,893	166,061
Current assets			
Inventories	23	119,946	107,627
Trade and other receivables	24	144,738	143,902
Amount due from a related company	25	918	851
Short term investments	26	4,322	81,582
Tax recoverable		608	751
Bank balances and cash		149,148	95,874
		419,680	430,587
Current liabilities			
Trade and other payables	27	95,996	61,422
Amounts due to related companies	25	1,412	843
Taxation		3,774	7,927
		101,182	70,192
Net current assets		318,498	360,395
Total assets less current liabilities		478,391	526,456
Non-current liabilities			
Long term payables	28	–	8,573
Post-employment benefits	29	73	73
Deferred tax liabilities	30	2,253	3,622
		2,326	12,268
NET ASSETS		476,065	514,188

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
CAPITAL AND RESERVES			
Share capital	31	**31,840**	31,840
Reserves	33	**441,654**	479,494
Total equity attributable to equity holders of the Company		**473,494**	511,334
Minority interests	33	**2,571**	2,854
TOTAL EQUITY		**476,065**	514,188

Approved and authorised for issue by the Board of Directors on 8 April 2009

Ngan Hei Keung
Director

Ngan Po Ling, Pauline
Director

BALANCE SHEET

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	19	310,389	342,945
Current assets			
Other receivables		14,904	305
Tax recoverable		201	208
Bank balances and cash		25,693	1,182
		40,798	1,695
Current liabilities			
Accrued charges and other creditors		14,234	–
Taxation		–	391
		14,234	391
Net current assets		26,564	1,304
NET ASSETS		336,953	344,249
CAPITAL AND RESERVES			
Share capital	31	31,840	31,840
Reserves	33	305,113	312,409
		336,953	344,249

Approved and authorised for issue by the Board of Directors on 8 April 2009

Ngan Hei Keung
Director

Ngan Po Ling, Pauline
Director

	Note	2008 HK$'000	2007 HK$'000
Operating activities			
Cash generated from operations	35	62,151	124,497
The People's Republic of China ("PRC") Income Tax paid		(3,724)	(232)
Hong Kong Profits Tax paid		(4,544)	(7,223)
Hong Kong Profits Tax refunded		–	560
Overseas taxation paid		(311)	(1,258)
Net cash generated from operating activities		53,572	116,344
Investing activities			
Interest received		2,260	6,667
Acquisition of a subsidiary	36	(23,081)	–
Acquisition of a jointly controlled entity		(19,706)	–
Purchase of property, plant and equipment		(15,002)	(36,040)
Proceeds from disposal of property, plant and equipment		70	170
Net receipt from related companies		502	–
Net sales/(acquisition) of short term investments		72,399	(78,070)
Net cash from/(used in) investing activities		17,442	(107,273)
Financing activities			
Interest paid		(191)	(277)
Dividends paid		(22,288)	(55,863)
New bank loans borrowed		18,000	–
Repayment of bank loans		(18,000)	(6,000)
Proceed from share options exercised		–	7,275
Net cash used in financing activities		(22,479)	(54,865)
Net increase/(decrease) in cash and cash equivalents		48,535	(45,794)
Cash and cash equivalents at beginning of year		95,874	139,247
Effect of foreign exchange rate changes		4,739	2,421
Cash and cash equivalents at end of year		149,148	95,874
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		149,148	95,874

1. General Information

The Company is a public limited company incorporated in Bermuda and its shares are listed on the Stock Exchange of Hong Kong Limited ("Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" to the annual report.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 43 to the financial statements.

2. 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"). A summary of the significant accounting policies adopted by the Group is set out below. These polices have been consistently applied to all the years presented unless otherwise stated.

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 3 provides information or 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 short term investments which are stated at fair value as explained in accounting policies set out below.

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. In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment loss (see note 2(h)), 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.

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

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 extent 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 or an investment 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 2(h)).

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 or a jointly controlled entity, after re-assessment, is recognised immediately as income.

On disposal of a subsidiary or a jointly controlled entity, any attributable amount of 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 2(h)).

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	12.5% to 20%

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

(f) Jointly controlled entities

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

Investment in a jointly controlled entity is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the jointly controlled entity is carried at cost and adjusted for the post-acquisition changes in the Group's share of the jointly controlled entity's net assets less any identified impairment loss. Where the Group's share of loss equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of loss is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

(g) 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 2(h)). 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.

(h) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other 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;

– investments in subsidiaries;

– investments in a jointly controlled entity;

– 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. 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.

(i) 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.

(j) 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.

(k) 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 2(h)).

(l) Trade and other payables

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

(m) 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.

(n) 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.

(o) 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.

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.

(p) 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 if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, and 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.

(q) 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.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Changes in deferred tax assets or liabilities are recognised in the income statement or in equity if they relate to items that are charged or credited directly to equity.

(r) Foreign currencies

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company. 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.

(s) 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.

(t) 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.

(u) Retirement benefit costs

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

(v) Share-based payments

The fair value of share options granted is charged to the consolidated income statement with a corresponding increase in capital reserve within equity. The fair value is measured at grant date using the Black-Scholes pricing model or binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the vesting conditions have to be met 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 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).

(w) 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.

(x) 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, goodwill and amount due from a related company. Segment liabilities consists primarily trade and other payables, amounts due to related companies and post-employment benefits. Segment capital expenditure comprises additions to property, plant and equipment. 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.

(y) Discontinued operations

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.

3. Changes in Accounting Policies

In the current year, the Group has applied for the first time the following amendments and interpretations (the new "HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2008:

HK (IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HKAS 39 (Amendments)	Reclassification of Financial Assets

The new HKFRSs has no material impact on how the results and financial position for the current and prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

The Group has not early adopted the following new and amended HKFRSs that have been issued and relevant to its operation but are not yet effective. The Group 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[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[1]
HKFRS 2 (Amendments)	Share-based Payment – Vesting Conditions and Cancellation[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments[1]
HKFRS 8	Operating Segments[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2008[3]

Notes:

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 July 2009

3 Generally effective for annual periods beginning on or after 1 January 2009 unless otherwise stated in the specific HKFRSs

4. Critical Accounting Estimates and Judgement

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

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

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2(h). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Estimating the value in use requires an estimate of the expected future cash flows from the cash-generating unit and also a suitable discount rate in order to calculate the present value of those cash flows. If the actual growth rate had been higher or the pre-tax discounted rate lower than management's estimates, the Group would not be able to reverse any impairment losses that arose on goodwill.

(b) Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectability and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, the collateral security and the past collection history. If the financial conditions of these receivables were to deteriorate, resulting in impairment of their ability to make repayments, additional allowance may be required.

(c) Provision for impairment of inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate ageing analysis of inventories and compare the carrying value of inventories to their respective net realisable values. A considerable amount of judgement is required in determining such allowance. If conditions which have impact on the net realisable value of inventories deteriorate, additional allowances may be required.

5. Turnover and Revenue

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

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

6. Other Income

	2008	2007
	HK$'000	HK$'000
Interest income	2,260	6,778
Sundry income	1,065	2,330
Net gain from short term investments	–	3,512
Negative goodwill (note 28)	5,808	–
	9,133	12,620

7. 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: The trading and distribution of headwear and other products business of the Group is operating through Drew Pearson International (Europe) Ltd. ("DPI Europe") which focus on the Europe market.

(iii) Retail Business: The Group operates LIDS stores in the PRC and Hong Kong, and SANRIO stores in the PRC. In addition, the Group has operated tourist souvenir shops in Beijing, the PRC since January 2008.

	Manufacturing		Trading		Retail		Inter-segment elimination		Consolidation	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**379,421**	380,780	**45,622**	50,463	**185,916**	107,798	**–**	–	**610,959**	539,041
Inter-segment revenue	**19,947**	15,291	**–**	–	**–**	–	**(19,947)**	(15,291)	**–**	–
Total revenue	**399,368**	396,071	**45,622**	50,463	**185,916**	107,798	**(19,947)**	(15,291)	**610,959**	539,041
Other income	**7,820**	3,224	**–**	54	**370**	1,155	**–**	–	**8,190**	4,433
Total	**407,188**	399,295	**45,622**	50,517	**186,286**	108,953	**(19,947)**	(15,291)	**619,149**	543,474
Segment result and contribution from operations	**364**	41,824	**4,987**	7,133	**(22,838)**	(3,599)	**105**	(184)	**(17,382)**	45,174
Unallocated other income									**943**	8,187
Unallocated operating expenses									**(5,868)**	(78)
(Loss)/profit from operations									**(22,307)**	53,283
Share of results of a jointly controlled entity									**(4,570)**	–
Finance costs									**(86)**	(277)
Taxation									**(2,857)**	(5,940)
(Loss)/profit for the year – Continuing operation									**(29,820)**	47,066
Adjustment to gain on disposal of assets and liabilities of a subsidiary									**–**	(5,475)
Loss for the year – Discontinued operation									**–**	(5,475)
Total (loss)/profit for the year									**(29,820)**	41,591
Depreciation and amortisation	**23,362**	24,270	**130**	92	**6,692**	6,249	**–**	–	**30,184**	30,611
Impairment of goodwill and intangibles	**11,146**	–	**–**	–	**17,202**	–	**–**	–	**28,348**	–
Provision for impairment of trade receivables	**1,662**	454	**–**	–	**–**	–	**–**	–	**1,662**	454
Negative goodwill	**(5,808)**	–	**–**	–	**–**	–	**–**	–	**(5,808)**	–

	Manufacturing		Trading		Retail		Consolidation	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**327,982**	340,467	**10,312**	9,312	**72,040**	49,862	**410,334**	399,641
Interests in a jointly controlled entity							**15,136**	–
Unallocated assets							**154,103**	197,007
Total assets							**579,573**	596,648
Segment liabilities	**54,217**	39,532	**7,907**	7,268	**35,357**	15,538	**97,481**	62,338
Unallocated liabilities							**6,027**	20,122
Total liabilities							**103,508**	82,460
Capital expenditure incurred during the year	**10,283**	33,234	**296**	22	**6,928**	2,784	**17,507**	36,040

(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

	2008	2007
	HK$'000	HK$'000
USA	289,238	323,261
HK and the PRC	207,662	128,632
Europe	98,074	80,519
Others	15,985	6,629
Total	610,959	539,041

(ii) Segment assets and capital expenditure

	Hong Kong, Macau and PRC		Europe		Unallocated		Consolidation	
	2008	2007	2008	2007	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	391,858	390,329	10,312	9,312	177,403	197,007	579,573	596,648
Capital expenditure incurred during the year	17,211	36,018	296	22	–	–	17,507	36,040

8. 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$675,000 has been agreed between the Group and the buyer, and such amount was charged to consolidated income statement as adjustment to gain on disposal of assets and liabilities of a subsidiary. The adjustment to gain on disposal of assets and liabilities of a subsidiary charged to the consolidated income statement was HK$nil (2007: HK$5,475,000)

9. (Loss)/Profit Before Taxation

This is stated after charging/(crediting):

	2008	2007
	HK$'000	HK$'000
(a) Finance costs		
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	86	277
(b) Other items		
Employee remuneration (including directors' emoluments and retirement benefit costs)		
– Salaries and allowances	151,304	133,919
– Contribution to retirement scheme	775	693
– Share-based payments	269	78
	152,348	134,690
Cost of inventories	440,586	365,957
Write-down of inventories (included in cost of inventories)	–	1,000
Auditors' remuneration	1,172	914
Depreciation of property, plant and equipment	30,042	30,478
Amortisation on prepaid premium on leasehold land held for own use under operating lease	142	133
Net foreign exchange loss	1,153	142
Net loss/(gain) from short-term investments	4,861	(3,512)
Operating leases charges in respect of office premises, shops, factories and warehouses	38,995	30,718
Provision for impairment of trade receivables	1,662	454
Impairment of goodwill (note 21)	17,202	–
Impairment of intangibles (note 22)	11,146	–
Negative goodwill (note 28)	(5,808)	–

10. Directors' Emoluments

	2008	2007
	HK$'000	HK$'000
Fees	432	432
Salaries, housing benefits, other allowances and benefits in kind	5,576	5,229
Share-based payments	165	61
Contributions to retirement scheme	61	66
	6,234	5,788

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

	Fees	Salaries, allowances and benefits in kind	Share-based payments	Retirement scheme contributions	2008 Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Ngan Hei Keung	–	1,040	–	24	1,064
Madam Ngan Po Ling, Pauline	–	1,604	–	24	1,628
Mr. Luh Yih Ping	–	340	95	2	437
Mr. Cheung Wai Ching	–	2,592	70	11	2,673
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	5,576	165	61	6,234

	Fees	Salaries, allowances and benefits in kind	Share-based payments	Retirement scheme contributions	2007 Total
	HK$'000	HK$'000	HK$'000	HK$'000	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

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.

11. Five Highest Paid Employees

The five highest paid individuals included three (2007: three) directors, details of whose remuneration are set out in note 10. The details of the emoluments of the remaining two (2007: two) highest paid individuals are as follows:

	2008	2007
	HK$'000	HK$'000
Salaries and allowances	3,485	3,046
Discretionary bonuses	1,824	1,440
Share-based payments	104	17
Contributions to retirement scheme	12	12
	5,425	4,515

The emoluments of these two (2007: two) employee are within the following bands:

	2008	2007
	HK$'000	HK$'000
HK$1,000,001 – HK$1,500,000	–	1
HK$1,500,001 – HK$2,000,000	1	–
HK$3,000,001 – HK$3,500,000	1	1

12. Taxation

	2008	2007
	HK$'000	HK$'000
Hong Kong Profits Tax		
– Current year	527	6,391
– Over-provision in prior years	(839)	(495)
	(312)	5,896
PRC income tax	3,488	676
Overseas tax	1,035	557
	4,211	7,129
Deferred taxation (note 30)		
– Current year	(1,147)	(1,189)
– Decrease in tax rate	(207)	–
	(1,354)	(1,189)
	2,857	5,940

Hong Kong Profits Tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits for the year. Taxation for PRC and overseas subsidiaries has been calculated at the rates applicable in the respective jurisdictions and based on prevailing legislation, interpretations, and practices in respect thereof.

Reconciliation of tax expenses

	2008	2007
	HK$'000	HK$'000
(Loss)/profit before tax	(26,963)	47,531
Calculated at a taxation rate of 16.5% (2007: 17.5%)	(4,449)	8,318
Effect of different taxation rates in other countries	896	110
Decrease in tax rate	207	–
Non-deductible expenses	8,611	1,188
Tax exempt revenue	(2,780)	(6,211)
Unrecognised tax losses	602	3,477
Overprovision in prior years	(839)	(495)
Others	609	(447)
Tax expenses for the year	2,857	5,940

13. Profit Attributable to Equity Holders of the Company

The profit attributable to equity holders of the Company dealt with in the financial statements of the Company for the year amounted to HK$14,279,000 (2007: HK$1,398,000).

14. Dividends

	2008	2007
	HK$'000	HK$'000
Interim dividend of 2 HK cents (2007: 3 HK cents) per share	6,368	9,552
Proposed final dividend of 3 HK cents (2007: 5 HK cents) per share	10,055	15,920
	16,423	25,472

A final dividend in respect of 2008 of 3 HK cents (2007: 5 HK cents) per share amounting to approximately HK$10,055,000 (2007: HK$15,920,000) has been proposed by the directors after the balance sheet date.

15. (Loss)/Earnings Per Share

Continuing operation:

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity holders of the Company of HK$29,259,000 (2007: profit of HK$47,177,000) and on the weighted average number of shares of 318,402,284 (2007: 317,514,697) in issue during the year.

No diluted loss per share has been presented for the year ended 31 December 2008 because the impact of exercise of the share options was anti-dilutive. For the year ended 31 December 2007, the calculation of diluted earnings per share was based on the profit attributable to equity holders of the Company of HK$47,177,000 and 320,833,930 shares which was the weighted average number of shares during the year 2007 adjusted for the number of dilutive potential shares under the share option schemes.

Discontinued operation:

No basic or diluted loss per share was presented for the year ended 31 December 2008 as there was no discontinued operation. The calculation of basic and diluted loss per share for the year ended 31 December 2007 was based on the loss attributable to equity holders of the Company of HK$5,475,000 and the denominators detailed above.

16. 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 consolidated income statement of the Group are as follows:

	2008	2007
	HK$'000	HK$'000
Gross retirement schemes contributions	775	693
Less: Forfeited contributions for the year	–	–
Net retirement schemes contributions	775	693

As at 31 December 2008, 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.

17. 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 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 and 1 January 2008	**31,376**	**38,088**	**213,015**	**14,524**	**10,537**	**307,540**
Acquisition of a subsidiary	226	1,454	–	–	825	2,505
Additions	2,568	4,496	3,866	3,355	717	15,002
Disposals	(38)	(333)	(57)	–	(253)	(681)
Exchange differences	791	1,311	6,570	1,067	251	9,990
At 31 December 2008	**34,923**	**45,016**	**223,394**	**18,946**	**12,077**	**334,356**
Accumulated depreciation						
At 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 and 1 January 2008	**25,525**	**26,197**	**103,091**	**–**	**6,607**	**161,420**
Charge for the year	2,768	8,179	17,334	–	1,761	30,042
Eliminated on disposals	(37)	(333)	(57)	–	(196)	(623)
Exchange differences	696	1,077	2,925	–	123	4,821
At 31 December 2008	**28,952**	**35,120**	**123,293**	**–**	**8,295**	**195,660**
Net book value						
At 31 December 2008	**5,971**	**9,896**	**100,101**	**18,946**	**3,782**	**138,696**
At 31 December 2007	5,851	11,891	109,924	14,524	3,930	146,120

18. Prepaid Premium on Leasehold Land Held for Own Use Under an Operating Lease

	The Group HK$'000
Cost	
At 1 January 2007	2,523
Exchange difference	161
At 31 December 2007 and 1 January 2008	2,684
Exchange difference	183
At 31 December 2008	2,867
Accumulated amortisation	
At 1 January 2007	1,325
Charge for the year	133
Exchange difference	85
At 31 December 2007 and 1 January 2008	1,543
Charge for the year	142
Exchange difference	107
At 31 December 2008	1,792
Net book value	
At 31 December 2008	**1,075**
At 31 December 2007	1,141

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

19. Interests in Subsidiaries

	The Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	99,631	99,631
Due from subsidiaries (note (i))	210,758	243,314
	310,389	342,945

Notes:

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

(ii) Particulars of the Company's principal subsidiaries are set out in note 43.

20. Interests in a Jointly Controlled Entity

	The Group	
	2008	2007
	HK$'000	HK$'000
Cost of unlisted investments (note ii)	19,706	–
Share of post-acquisition loss	(4,570)	–
	15,136	–

Notes:

(i) Investment in a jointly controlled entity represents 36% of the issued share capital of Keen Idea Group Limited ("Keen Idea"), a company which is engaged in headwear manufacturing business with its factory based in Vietnam.

(ii) Included in cost of interests in a jointly controlled entity is goodwill arising on acquisition of the jointly controlled entity of HK$2,897,000.

(iii) The summarised financial information in respect of the jointly controlled entity is set out below:

	2008	2007
	HK$'000	HK$'000
Current assets	19,782	–
Non-current assets	23,402	–
Current liabilities	(9,188)	–
Non-current liabilities	–	–
Income	32,314	–
Expenses	(45,009)	–

21. Goodwill

	The Group
	HK$'000
Gross carrying value	
At 1 January 2007	6,707
Increase in shareholding of a subsidiary	1,454
At 31 December 2007 and 1 January 2008	8,161
Acquisition of a subsidiary	17,202
Adjustment to cost of acquisition (note 28)	(3,203)
At 31 December 2008	22,160
Accumulated impairment	
At 1 January 2007 and 31 December 2007	–
Impairment of goodwill	17,202
At 31 December 2008	17,202
Net carrying amount	
At 31 December 2008	4,958
At 31 December 2007	8,161

The amount of HK$3,203,000 represented the adjustment to the cost of acquisition in respect of the acquisition of Bollman (Hong Kong) Limited and Guang Zhou Jian Hao Headwear Manufacturing Ltd. ("Panyu Factory", together, "Bollman Subsidiaries") in 2006 that was contingent subsequent to the acquisition.

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 carrying amount of goodwill net of impairment loss, is allocated to the following CGUs:

	The Group	
	2008	2007
	HK$'000	HK$'000
Manufacturing business	**–**	3,203
Retail business	**4,958**	4,958
	4,958	8,161

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. The key assumptions used for value in-use calculations:

	Manufacturing business		Retail business	
	2008	2007	**2008**	2007
Growth rates	**–**	10%	**5 – 8%**	15%
Discount rates	**–**	10%	**8%**	10%

The present value of financial budgets is calculated by discounting with pre-tax rates of 8%. 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.

During the year ended 31 December 2008, goodwill arising from the acquisition of 100% interests in 北京叠翠旅遊紀念品有限責任公司 ("Diecui"), which is engaged in running retail souvenir and gift shops in Beijing, PRC amounted to HK$17,202,000 (note 36). The goodwill is attributable to the expanding retail channels in Beijing and the capture of business opportunities resulted from the Beijing 2008 Olympics Games. Management has reviewed its recoverable amount as at year end by reference to the value-in-use calculations and determined that the goodwill was fully impaired. An impairment loss of HK$17,202,000 was recognised in the consolidated income statement.

The management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill of other CGUs to exceed the recoverable amount.

22. Intangibles

Intangibles represent the fair value of purchase orders committed by the vendor to the Group in respect of the acquisition of Bollman Subsidiaries recognised in 2006.

	The Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**10,603**	10,033
Interest recognised in the income statement	**543**	570
Impairment loss	**(11,146)**	–
At 31 December	**–**	10,603

The management has reviewed the carrying amount of the intangibles as at 31 December 2008 and considered that the vendor probably cannot fulfill the purchase orders commitment. An impairment loss of HK$11,146,000 was recognised in the consolidated income statement.

23. Inventories

	The Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**48,981**	44,696
Work-in-progress	**13,754**	22,409
Finished goods	**57,211**	40,522
	119,946	107,627

The amount of inventories, included in above, carried at net realisable value is HK$38,112,000 (2007: HK$33,377,000).

24. Trade and Other Receivables

	The Group 2008 HK$'000	2007 HK$'000
Trade and bills receivables	107,713	99,612
Less: provision for impairment of trade receivables	(3,566)	(1,997)
	104,147	97,615
Deposits, prepayments and other debtors	40,591	46,287
	144,738	143,902

(a) Ageing analysis of trade and bills receivables

The ageing analysis of trade and bills receivables (net of provision for impairment of trade receivables) at the balance sheet date is as follows:

	The Group 2008 HK$'000	2007 HK$'000
0 – 30 days	41,651	41,237
31 – 60 days	28,258	20,585
61 – 90 days	15,033	7,752
Over 90 days	19,205	28,041
	104,147	97,615

The Group's credit policy is set out in note 34(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 receivables is impaired.

Impairment losses in respect of trade and bills receivables are recorded using a provision for impairment of trade receivables 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 impairment of trade receivables during the year is as follows:

	The Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**1,997**	1,552
Acquisition of a subsidiary	**3**	–
Impairment loss recognised	**1,662**	454
Uncollectible amounts written off	**(96)**	(9)
At 31 December	**3,566**	1,997

It represents provisions that were individually determined to be impaired. The Group does not hold any collateral over the impaired trade receivables.

(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 2008	The Group 2007
	HK$'000	HK$'000
Neither past due nor impaired	**59,152**	52,683
1 – 30 days past due	**19,734**	16,518
31 – 60 days past due	**8,377**	10,525
Over 60 days past due	**16,884**	17,767
	104,147	97,493

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.

(d) Included in other receivables of HK$7,800,000 (2007: HK$nil) is interest bearing at 12% per annum.

25. Amounts Due from/(to) Related Companies

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

26. Short Term Investments

Short term investments are equity fund investment in listed and unlisted equity which is held for trading and is stated at market value.

27. Trade and Other Payables

	The Group 2008 HK$'000	The Group 2007 HK$'000
Trade and bills payables	**43,938**	29,180
Accrued charges and other creditors	**52,058**	32,242
	95,996	61,422

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

	The Group 2008 HK$'000	The Group 2007 HK$'000
0 – 30 days	**19,816**	17,060
31 – 60 days	**9,263**	8,371
61 – 90 days	**1,385**	1,006
Over 90 days	**13,474**	2,743
	43,938	29,180

28. Long Term Payables

Long term payables represent the fair value initially recognised 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 and any shortfall in the commitment of purchase orders during the two years from 1 July 2007. No minimum earnout is expected to pay to the vendor due to the shortfall of purchase orders. An adjustment to the cost of acquisition of Bollman Subsidiaries was made against the goodwill recognised in 2006 of HK$3,203,000 (note 21) and the remaining balance of negative goodwill (excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition) of HK$5,808,000 was credited to consolidated income statement for the year.

29. Post-employment Benefits

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

30. 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	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Depreciation allowances	**–**	–	**(2,253)**	(3,622)
Others	**28**	36	**–**	–
Deferred tax assets/(liabilities)	**28**	36	**(2,253)**	(3,622)

In accordance with the accounting policy set out in note 2(q), the Group have not recognised deferred tax assets in respect of cumulative tax losses of HK$18,525,000 (2007: HK$40,462,000) 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:

	2008	2007
	HK$'000	HK$'000
Net deferred tax liabilities at 1 January	**(3,586)**	(4,772)
Exchange differences	**7**	(3)
Credit for the year (note 12)	**1,354**	1,189
Net deferred tax liabilities at 31 December	**(2,225)**	(3,586)

31. Share Capital

	Note	Number of shares of HK$0.10 each	HK$'000
Authorised:			
At 1 January 2007, 31 December 2007 and **31 December 2008**		**1,000,000,000**	100,000
Issued and fully paid:			
At 1 January 2007		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
At 31 December 2007 and 31 December 2008		**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.

32. Equity Settled Share-based Payment Transactions

(1) 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 scheme mandate limit was refreshed on 28 November 2008. Upon refreshing of the scheme mandate limit, the Company may grant options entitling holders thereof to subscribe for up to a maximum of 31,840,228 shares, representing 10% of the shares in issue of the Company as at 28 November 2008.

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

	2008		2007	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
		HK$		HK$
At 1 January	**18,644,200**	**2.25**	24,830,000	2.25
Granted	**4,000,000**	**0.90**	4,000,000	2.29
Exercised	**–**	**–**	(3,212,000)	2.06
Bonus shares issued	**–**	**–**	2,162,800	–
Lapsed	**(4,000,000)**	**2.29**	(9,136,600)	2.37
As 31 December	**18,644,200**	**1.94**	18,644,200	2.25
Options vested at 31 December	**14,644,200**	**2.01**	14,644,200	2.23

At the balance sheet date, the weighted average remaining contractual life of the Company's share options was 6.8 years (2007: 5.3 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 35.

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

	2008	2007
Exercise price	Number of share options	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 in 2007 was HK$3.18.

(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 options granted is measured based on a Black-Scholes pricing mode. The inputs into the model were as follows:

	2008	2007
Weighted average share price	HK$0.89	HK$2.12
Weighted average exercise price	HK$0.9	HK$2.25
Expected volatility	72.7%	35.6%
Expected life	9.8 years	5 years
Risk free rate	1%	5.75%
Expected dividend yield	6%	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.

Under this share option scheme, HK$269,000 of share-based payment expense has been included in the consolidated income statement for 2008 (2007: HK$78,000) and the corresponding amount of which has been credited to capital reserve.

(2) Under a manufacturing agreement ("Manufacturing Agreement") entered between a wholly owned subsidiary of the Company and New Era Cap Asia Pacific Limited ("NE"), New Era Cap Co., Inc ("New Era") and its group companies (collectively "New Era Group") on 21 October 2008, in consideration of the purchase commitment given by New Era Group, the Company granted NE in respect of subscription of 62,843,000 shares of the Company subject to the terms and conditions of the Manufacturing Agreement.

The option consists of three tranches with their respective exercise periods as below:

Tranche No.	Number of underlying shares	Vested and exercisable period
1	16,750,000	01.04.2009 – 02.01.2010
2	25,000,000	01.02.2010 – 31.07.2010
3	21,093,000	01.08.2010 – 31.01.2011
	62,843,000	

(a) Movements in share options

	2008 Number of share options
At 1 January	–
Granted	62,843,000
As 31 December	62,843,000
Options vested at 31 December	–

At the balance sheet date, the weighted average remaining contractual life of the Company's share options was 1.5 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 36. The options granted generally have a vesting term of 0.6 year.

(b) Fair value of share options and assumptions

The estimate of the fair value of share options granted is measured based on a Binomial Option Pricing model. The inputs into the model were as follows:

	2008
Weighted average share price	HK$0.84
Expected volatility	56.2%
Expected life	1.5 years
Risk free rate	0.77%
Expected dividend yield	8%

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.

The exercise price shall be determined based on certain discount applied to the average of the closing price for the thirty trading days prior to the date of exercise (inclusive if it is a trading day) and the level of discount depends on (i) the average closing price for thirty trading days before the date of exercise; and (ii) whether the minimum annual consideration in accordance with the Manufacturing Agreement can be fulfilled:

Average closing price for thirty trading days before the date of exercise	*Discount level to be applied to the exercise price per share*	
	Earlier fulfillment condition not fulfilled (Note)	*Earlier fulfillment condition fulfilled (Note)*
Less than or equal to HK$3.00	12.5%	14.5%
More than HK$3.00 and equal to or less than HK$4.00	14%	15%
More than HK$4.00 and equal to or less than HK$5.00	16%	17%
Above HK$5.00	20%	20%

Note:

(i) During the period from 1 January 2009 to 30 June 2009, if the actual aggregate purchase by New Era Group exceed the minimum annual consideration in accordance with the Manufacturing Agreement, NE is entitled to higher discount level set out in above to any parts of Tranche No. 1 option which remain outstanding as of 30 June 2009.

(ii) During the period from 1 January 2010 to 30 June 2010, if the actual aggregate purchase by New Era Group exceed the minimum annual consideration in accordance with the Manufacturing Agreement, NE is entitled to higher discount level set out in above to any parts of Tranche No. 2 and Tranche No.3 option which remain outstanding as of 30 June 2010.

(iii) In no event, the exercise price will be above HK$8.00 per option share or will be below the prevailing nominal value of the shares.

(iv) The probability of earlier fulfillment condition not fulfilled adopted by the Group is 30%.

Under this share option scheme, HK$444,000 of share-based payment expense has been included in the consolidated income statement for 2008 and the corresponding amount of which has been credited to capital reserve.

33. 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 2007	94,820	25,878	353,271	6,594	5,957	486,520	1,135
Profit 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	–	–	(31,839)	–	–	(31,839)	–
2006 special dividend paid	–	–	(14,472)	–	–	(14,472)	–
Issue of bonus shares	(2,894)	–	–	–	–	(2,894)	–
2007 interim dividend paid (note 14)	–	–	(9,552)	–	–	(9,552)	–
Exercise of share options	8,277	–	–	(1,323)	–	6,954	–
Share options lapsed	–	–	737	(737)	–	–	–
Equity settled share-based 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 14)	–	–	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	
At 1 January 2008	100,203	25,878	339,847	4,612	8,954	479,494	2,854
Loss for the year	–	–	(29,259)	–	–	(29,259)	(561)
Exchange differences	–	–	–	–	12,994	12,994	278
2007 final dividend paid (note 14)	–	–	(15,920)	–	–	(15,920)	–
2008 interim dividend paid (note 14)	–	–	(6,368)	–	–	(6,368)	–
Share options lapsed	–	–	78	(78)	–	–	–
Equity settled share-based transactions	–	–	–	713	–	713	–
At 31 December 2008	**100,203**	**25,878**	**288,378**	**5,247**	**21,948**	**441,654**	**2,571**
Representing:							
2008 proposed final dividend (note 14)	–	–	10,055	–	–	10,055	
Reserves	100,203	25,878	278,323	5,247	21,948	431,599	
	100,203	25,878	288,378	5,247	21,948	441,654	

The Company	Share premium HK$'000	Contributed surplus HK$'000	Accumulated profits HK$'000	Capital reserve HK$'000	Total HK$'000
At 1 January 2007	94,820	99,431	161,891	6,594	362,736
Profit for the year	–	–	1,398	–	1,398
2006 final dividend paid	–	–	(31,839)	–	(31,839)
2006 special dividend paid	–	–	(14,472)	–	(14,472)
Issue of bonus shares	(2,894)	–	–	–	(2,894)
2007 interim dividend paid (note 14)	–	–	(9,552)	–	(9,552)
Exercise of share options	8,277	–	–	(1,323)	6,954
Share options lapsed	–	–	737	(737)	–
Equity settled share-based transactions	–	–	–	78	78
At 31 December 2007	100,203	99,431	108,163	4,612	312,409
Representing:					
2007 proposed final dividend (note 14)	–	–	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
At 1 January 2008	100,203	99,431	108,163	4,612	312,409
Profit for the year	–	–	14,279	–	14,279
2007 final dividend paid (note 14)	–	–	(15,920)	–	(15,920)
2008 interim dividend paid (note 14)	–	–	(6,368)	–	(6,368)
Share options lapsed	–	–	78	(78)	–
Equity settled share-based transactions	–	–	–	713	713
At 31 December 2008	**100,203**	**99,431**	**100,232**	**5,247**	**305,113**
Representing:					
2008 proposed final dividend (note 14)	–	–	10,055	–	10,055
Reserves	100,203	99,431	90,177	5,247	295,058
	100,203	99,431	100,232	5,247	305,113

(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 2(v).

(c) As at 31 December 2008, the Company's reserves available for cash distribution amounted to HK$199,663,000 (2007: HK$207,594,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK$100,203,000 (2007: HK$100,203,000) 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 sustainable 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 2008, the Group's strategy, which was unchanged from 2007, was to maintain its gearing ratio at zero.

34. Financial Risk Management

(a) Categories of financial instruments

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Loans and receivables (include cash and cash equivalents):				
– Trade and other receivables	**124,395**	143,902	**14,904**	305
– Amount due from a related company	**918**	851	**–**	–
– Bank balances and cash	**149,148**	95,874	**25,693**	1,182
	274,461	240,627	**40,597**	1,487
Financial assets at fair value through profit or loss:				
– Short term investments	**4,322**	81,582	**–**	–
	278,783	322,209	**40,597**	1,487
Financial liabilities				
Amortised cost:				
– Trade and other payables	**95,996**	61,422	**14,234**	–
– Amounts due to related companies	**1,412**	843	**–**	–
	97,408	62,265	**14,234**	–

(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 2008, 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$9,994,000 (2007: HK$2,985,000) 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% charge 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 liabilities, the Group's interest rate risk primarily arises from bank deposits. The Group has not used any derivative contracts to hedge its exposure to interest rate risk.

At 31 December 2008, it is estimated that a general increase/decrease of 50 basis points in bank deposits interest rates, with all other variables held constant, would increase/decrease the Group's results after tax and accumulated profits by approximately HK$746,000 (2007: HK$479,000). 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 short term investments. If the market bid prices of the investments had been 10% higher/lower, the Group's profit after tax and accumulated profits would increase/decrease by approximately HK$432,000 for the year ended 31 December 2008 (2007: HK$8,158,000). This is mainly attributable to the changes in fair values of the short term investments held for trading purpose.

The sensitivity analysis above has been determined based on the exposure to equity price risks 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 short term 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 deposits, short term investments and cash and cash equivalents. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

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. Cash and cash equivalents and deposits with banks are normally placed at financial institutions that have sound credit rating and the Group considers the credit risk to be insignificant.

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.

At the balance sheet date, the Group has a certain concentration of credit risk as 18% (2007: 9%) and 41% (2007: 44%) 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 deposits, short term investments and bank balances and cash 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

The Group's financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007 because of the immediate or short term maturity of these financial assets and liabilities.

35. Cash Generated from Operations

	The Group	
	2008	2007
	HK$'000	HK$'000
(Loss)/profit before taxation	(26,963)	47,531
Interest income	(2,260)	(6,778)
Interest expenses	86	277
Share of results of a jointly controlled entity	4,570	–
Impairment of goodwill and intangibles	28,348	–
Negative goodwill	(5,808)	–
Adjustment to gain on disposal of assets and liabilities of a subsidiary	–	5,475
(Gain)/loss on disposal of property, plant and equipment	(12)	74
Net loss/(gain) from short term investments	4,861	(3,512)
Depreciation and amortisation	30,184	30,611
Write-back of post-employment benefits	–	(99)
Equity-settled share-based payment expenses	713	78
Provision for impairment of trade receivables	1,662	454
Changes in working capital:		
Inventories	894	(12,315)
Trade and other receivables	5,057	74,794
Trade and other payables	20,819	(12,093)
Cash generated from operations	62,151	124,497

36. Acquisition of a Subsidiary

On 1 January 2008, Jumbo Creation Investments Limited, a wholly-owned subsidiary of the Group acquired 100% of the issued share capital of 北京疊翠旅遊紀念品有限責任公司 ("Diecui"), a PRC established company engaging in running retail souvenir and gift shops in Beijing, the PRC, for a total cash consideration of RMB26 million.Through the acquisition, the Group was able to rapidly expand its presence in Beijing, the PRC, and in particular, in some prime tourist spots. Besides, it also enriched the product mix of the Group's retail business.

The acquisition has been accounted for by the purchase method of accounting.

Details of the net assets acquired and goodwill of Diecui were as follows:

	Carrying value and fair value HK$'000
Assets and liabilities acquired:	
Property, plant and equipment	2,505
Inventories	10,754
Trade and other receivables	5,887
Bank balances and cash	5,180
Trade and other payables	(12,885)
Tax payable	(382)
Total net assets acquired	11,059
Goodwill	17,202
Total consideration paid by the Group	28,261

	HK$'000
The analysis of the net cash outflow in respect of the acquisition transaction is as follows:	
Total cash consideration	28,261
Bank balances and cash acquired	(5,180)
	23,081

The goodwill is attributable to the expanding retail channels in Beijing and the capture of business opportunities resulted from the Beijing 2008 Olympics Games.

The subsidiary acquired contributed a revenue of approximately HK$72,187,000 and a profit of approximately HK$511,000 to the Group for the year ended 31 December 2008.

37. 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:

	2008	2007
	HK$'000	HK$'000
Within one year	20,635	19,221
In the second to fifth years inclusive	24,594	8,661
Over five years	18,945	18,553
	64,174	46,435

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 consolidated income statement amounted to HK$15,630,000 (2007: HK$12,063,000).

38. Capital Commitments

At 31 December 2008, the Group had capital expenditure commitments as follows:

	The Group	
	2008	2007
	HK$'000	HK$'000
Contracted but not provided for		
– Manufacturing business	335	4,858
– Retail business	–	10,638
Authorised but not contracted for		
– Manufacturing business	7,296	2,487
– Retail business	3,989	2,302
	11,620	20,285

39. Contingent Liabilities

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 defend those allegations. Although the directors are confident that the Company will prevail in the case, they do not expect the matter to be resolved under the latter part of 2009.

40. Financial Guarantee

At 31 December 2008, the Company had executed a corporate guarantee of HK$125,500,000 (2007: HK$124,800,000) to secure general banking facilities granted to subsidiaries. Facilities utilised by the subsidiaries amounted to HK$1,667,000 as at 31 December 2008 (2007: HK$1,554,000).

41. Material Related Party Transactions

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	
	2008	2007
	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 banking facilities granted to a subsidiary	750	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 10 and certain of the highest paid employees as disclosed in note 11, is as follows:

	The Group	
	2008	2007
	HK$'000	HK$'000
Short-term employee benefits	14,523	12,083
Share-based payments	269	78
Retirement scheme contributions	113	97
	14,905	12,258

Total remuneration is included in "employee remumeration" in note 9.

42. Post Balance Sheet Events

Manufacturing agreement with New Era Group

On 21 October 2008, a wholly owned subsidiary of the Group entered into a Manufacturing Agreement with NE, New Era and its group companies. Pursuant to the Manufacturing Agreement, (i) New Era Group will purchase headwear products manufactured and supplied by Group for the period from 1 January 2009 and 31 December 2015. The total amount of purchase by New Era Group covered in this contract will be up to US$160,000,000, with the minimum purchase amount totalling US$37,500,000 for the 3 years ending 31 December 2011; (ii) NE has the right to subscribe a total of 16,758,000 shares of the Company at subscription price of HK$0.844 per share; (iii) a total of 62,843,000 share options are granted to NE. By entering the Manufacturing Agreement the Group is able to introduce NE to be a strategic shareholder of the Company. Subsequent to the balance sheet date, NE has fully subscribed 16,758,000 shares of the Company.

Disputes

The Group and Promotional Partners Worldwide Limited ("PPW") (now replaced by Licensing Partners Limited) currently hold 75% and 25% equity interest in Futureview Investment Limited ("Futureview"). Futureview is principally engaged in the sourcing, production and sale of Sanrio Products in the PRC. On 8 December 2008, PPW issued a legal letter to terminate the shareholders' agreement ("Shareholders' Agreement") owing to the alleged material defaults and/or non-observance of the Company's obligation under the Shareholders' Agreement. On 6 January 2009, the Company served a notice ("Notice") to PPW and Mr. Chan (the major shareholder of PPW) to terminate the Shareholders' Agreement and require them to sell their 25% equity interest in Futureview to the Group at a fair market price to be determined by a recognised international accountancy firm jointly appointed by the Group and PPW. Based on the legal advice from the Group's legal representative, the Directors are of the opinion that the disputes will not have any material adverse financial impact to the Group.

Acquisition of additional interests in Keen Idea

As at 31 December 2008, the Group has 36% interests in a jointly controlled entity, Keen Idea (note 20). On 27 February 2009, the Group through its wholly owned subsidiary, entered into a sales and purchase agreement with Forever Wise Holdings Limited to further acquire 24% equity interest of Keen Idea for a cash consideration of USD560,000 (equivalent to HK$4,368,000). Upon the completion of the agreement, the Group had effectively 60% equity interest in Keen Idea, which has become a non-wholly owned subsidiary of the Group. Details of the identified assets and liabilities acquired, extracted from the unaudited financial statements of Keen Idea, and the negative goodwill arising from the acquisition are set out below:

	Carrying value and fair value HK$'000
Net assets acquired	
Property, plant and equipment	21,938
Trade and other receivables	15,599
Bank balances and cash	2,916
Inventory	1,947
Trade and other payables	(7,824)
	34,576
Share of net assets by the minority interest	(13,830)
Changes in the Group's share of net assets from date of initial investment to date of acquisition	4,361
Negative goodwill	(1,033)
Total cash consideration	24,074

Total cash consideration for 60% interest in Keen Idea included initial investment of HK$19,706,000 for 36% equity interest and HK$4,368,000 for acquisition of additional 24% equity interest in Keen Idea.

43. 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
Bollman (Hong Kong) Limited	Hong Kong	PRC	HK$29,352,260	100%	Trading of headwear
北京疊翠旅遊紀念品有限責任公司	PRC (note i)	PRC	RMB10,000,000	100%	Retailing and trading of souvenirs and gifts
Dongguan Mainland Headwear Co., Ltd.	PRC (note ii)	PRC	HK$10,000,000	100%	Manufacture and sale of headwear
Drew Pearson International (Europe) Ltd.	The United Kingdom	The United Kingdom	£10,000	90%	Trading of headwear
Fully Point Investments Limited	The British Virgin Islands	Hong Kong	US$1	100%	Investment holding
Futureview Investment Ltd.	The British Virgin Islands	Hong Kong	US$196	75%	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.	PRC (note ii)	PRC	HK$8,500,000	100%	Retailing
Guang Zhou Jian Hao Headwear Manufacturing Ltd.	PRC (note ii)	PRC	RMB45,777,729	100%	Manufacture and sale of headwear
Jumbo Creation Investments Limited	The British Virgin Islands	Hong Kong	US$1	100%	Investment holding
Mainland Partners Holdings Limited	The British Virgin Islands	Hong Kong	US$1	100%	Investment holding

Name of company	Place of incorporation/ registration	Principal place of operation	Nominal value of issued ordinary share capital/ registered capital	Interest held	Principal activities
Mainland Sewing Headwear Manufacturing Limited	Hong Kong	Hong Kong	HK$10,000	100%	Manufacture and sale of headwear
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%	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.	PRC (note ii)	PRC	HK$52,000,000	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	PRC (note ii)	PRC	RMB10,000,000	75%	Retailing
深圳市大同啟豐實業有限公司	PRC (note i)	PRC	RMB1,000,000	75%	Retailing
北京大同啟豐商貿有限公司	PRC (note i)	PRC	RMB1,000,000	75%	Retailing
廣州市天開貿易有限公司	PRC (note i)	PRC	RMB1,000,000	75%	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.

44. Ultimate Holding Company

As at 31 December 2008, the ultimate holding company of the Company was Successful Years International Company Limited, a company incorporated in the British Virgin Islands.

	Year ended 31 December				
	2004	2005	2006	2007	**2008**
	(restated)				
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover and revenue	557,470	586,717	742,592	539,041	**610,959**
Cost of sales	(349,206)	(368,922)	(485,534)	(365,957)	**(440,586)**
Gross profit	208,264	217,795	257,058	173,084	**170,373**
Other income	4,903	11,438	7,354	12,620	**9,133**
Selling and distribution costs	(10,971)	(24,310)	(45,877)	(55,459)	**(69,533)**
Administration expenses	(114,101)	(123,068)	(134,091)	(76,962)	**(99,071)**
Other operating expenses	–	–	–	–	**(4,861)**
Impairment of goodwill and intangibles	–	–	–	–	**(28,348)**
Profit/(loss) from operations	88,095	81,855	84,444	53,283	**(22,307)**
Share of results of a jointly controlled entity	–	–	–	–	**(4,570)**
Gain/(Adjustment to gain) on disposal of assets and liabilities of a subsidiary	–	–	8,047	(5,475)	**–**
Finance costs	(69)	(30)	(208)	(277)	**(86)**
Profit/(loss) before taxation	88,026	81,825	92,283	47,531	**(26,963)**
Taxation	(7,771)	(6,153)	(8,761)	(5,940)	**(2,857)**
Profit/(loss) for the year	80,255	75,672	83,522	41,591	**(29,820)**
Attributable to:					
Equity holders of the Company	80,255	77,772	86,970	41,702	**(29,259)**
Minority interests	–	(2,100)	(3,448)	(111)	**(561)**
Profit/(loss) for the year	80,255	75,672	83,522	41,591	**(29,820)**
Dividends					
– Interim dividend paid	8,562	5,724	8,587	9,552	**6,368**
– Proposed final dividend	28,618	31,487	31,839	15,920	**10,055**
– Proposed special dividend	–	–	14,472	–	**–**
– Proposed bonus issue	–	–	2,894	–	**–**
	(restated)	(restated)	(restated)		
Earnings/(loss) per share					
Basic	25.6 HK cents	24.7 HK cents	27.6 HK cents	13.1 HK cents	**(9.2 HK cents)**
Earnings per share					
Diluted	23.5 HK cents	24.5 HK cents	27.5 HK cents	13.0 HK cents	**N/A**

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For the year ended 31 December 2008

	As at 31 December				
	2004	2005	2006	2007	**2008**
	(restated)				
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Non-current assets	133,398	133,015	154,487	166,061	**159,893**
Current assets	363,346	416,778	463,455	430,587	**419,680**
Current liabilities	74,722	77,191	88,411	70,192	**101,182**
Net current assets	288,624	339,587	375,044	360,395	**318,498**
Non-current liabilities	7,426	6,630	13,251	12,268	**2,326**
Net assets	414,596	465,972	516,280	514,188	**476,065**

Note: The information of the financial summary for two years ended 31 December 2008 and 2007 have been extracted from the audited consolidated income statement and consolidated balance sheet which are set out on page 43 to page 47 of the annual report.